



# PRINCIPLES OF PUBLIC ADMINISTRATION

WITH SPECIAL REFERENCE TO THE NATIONAL  
AND STATE GOVERNMENTS OF THE  
UNITED STATES ✓

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# PREFACE

At the time our political systems were taking shape attention was largely concentrated upon what may be termed the purely political problems of securing a form of government under which the popular will regarding the conduct of public affairs should find adequate expression; of reducing to a minimum the danger of the assumption by any officer or branch of the government of undue powers; and of the protection of the individual in the possession and exercise of what were believed to be his natural and inherent liberties and rights. From the activital standpoint, the idea dominant was that sphere of government action should be kept as limited as possible. That our governments would ever assume the responsibilities now exercised by them was not conceived.

From these political ideals it resulted that, in the formulation of our political systems, little attention was paid to the problem of the organization and the conduct of the administrative, as distinguished from the executive, branch of government. This is strikingly illustrated by the fact that only the most incidental reference was made in the federal constitution to be need for the establishment of administrative departments to have in charge the actual conduct of public affairs. This lack of concern in the purely administrative aspect of government, moreover, continued almost until the present generation. Not until after the Civil War did either the national or state governments enter upon that expansion in their administrative activities which is such a prominent feature of their recent development.

It is hardly necessary to comment upon the significance of this change as it affects the whole problem of securing an efficient conduct of public affairs. As the author has elsewhere written in an introduction to the volume published by the Institute for Government Research on "Organized Efforts for the Improvement of Methods of Administration," "the performance of the so-called essential functions of government now constitute but a relatively small part of its total activities. No longer is there an *a priori* assumption that a widening of the sphere of public action is an evil. The province of government is now held to embrace all forms of activities which contribute in any way to the promotion of the public welfare. There is hardly a field of activity into which our governments have not entered. Their operations are now on a vast scale and require for their performance organization and technical processes exceeding in size and complexity those of any private under-



taking. Gone also is the early simple faith that there were intrinsic merits in democratic government which could be depended upon for their own inherent force, as it were, to provide a satisfactory formulation and exertion of the public will. Upon the contrary it is now recognized that, if anything, a popularly controlled government is one which is peculiarly prone to financial extravagances and administrative inefficiency. It is now seen that original conceptions regarding the separation of powers must be radically revised; that the rigid application of this principle is no longer needed as a protection against a possible autocratic and oppressive exercise of power; that within the administrative branch responsibility and power must be more strongly centralized and a more integrated system of administrative services be built up. And finally, it has been recognized that many of the administrative tasks which the present-day government has to perform are highly technical in character, technical as regards the information that must be at hand, and technical as regards the methods of operation that must be employed, and that there are no inherent reasons why officers of government cannot be held to the same standards of efficiency and honesty which are exacted in the business world."

The foregoing has been written to emphasize the fact that due to the changes indicated, the whole problem of government has largely shifted from that of the organization and operation of the electoral and legislative branches of government through which the popular will is formulated and expressed to that of the organization and operation of the administrative branch through which this will as thus determined is actually put into execution. This is not saying that conditions as regards the first two branches named are now thoroughly satisfactory or that they do not still present problems urgently demanding solution. But it can hardly be questioned that, as regards our national government at least, the great political problem now confronting us is that of securing economy and efficiency in the actual administration of governmental affairs. This problem, as will be pointed out in the body of the present work, has to do with the work of Congress as the board of directors of the government corporation as well as with the organization and procedure of the executive departments and other administrative services. It also requires an especially careful consideration of the duties of the President as head of the administration. In a way, therefore, it involves a study of almost the whole problem of government viewed from the special standpoint of the government as an operating concern.

The present volume has for its purpose to make such a study as has here been outlined, with special reference to the problem

of administration as it confronts the national government and secondarily the state governments. Of the need for such a work, there will be no question. It is a remarkable fact that, great as is the importance of administration in the field of governmental affairs, little attempt has been made to study its problems as problems. To-day the man suddenly called to take charge of an important administrative post in a government has to assume office without being able to turn to any treatise which will assist him in the proper meeting of his responsibilities. In like manner the student of political science, while he has at his disposal a large number of excellent books dealing with general political and constitutional principles and the structure of governments, is quite at a loss when he wishes to concern himself with the practical problem of the organization and operation of the agencies through which a government seeks to put into execution policies determined upon.

In seeking to make a beginning at least in meeting this lack, every effort has been made to give to this work the character of a systematic treatise. Objection may be raised to the designation of administration as a science. Whether this objection is valid or not, the position is here taken that, in administration, there are certain fundamental principles of general application analogous to those characterizing any science which must be observed if the end of administration, efficiency in operation, is to be secured, and that these principles are to be determined and their significance made known only by the rigid application of the scientific method to their investigation. If the present work has any value it accordingly lies in the attempt to handle the subject to which it relates from this standpoint. Primarily it is a work of analysis. If it does nothing else it represents a painstaking effort to resolve the exceedingly comprehensive and complex problem of public administration into its constituent elements, and thus to lay the basis for more special and detailed studies in the future. In seeking to do this, it is in large degree breaking new ground. It is hardly to be expected, therefore, that either the analysis itself or the conclusions reached in respect to fundamental principles to be followed in the conduct of administrative affairs, will receive universal approval. They should, however, raise in concrete form questions that must be answered if the ends of government are to be attained with reasonable satisfaction.

Before turning this work over to the reader, two further points should be mentioned. The first is that, though, heretofore, there has been no general work aiming to cover the whole field of the principles of public administration, there are now available certain works dealing with particular branches of public administration and a large volume of literature concerning itself with the problem

of the administrative organization and procedure of particular governments. Reference is made to volumes published by the Institute for Government Research in its series, *Principles of Administration*, to the publications of the numerous Bureaus of Municipal Research and analogous bodies which have been established for the purpose of studying the problem of administration of particular governments and to the reports of the special committees and commissions created by the national and state governments dealing with the general or specific phases of the problem of improving existing administrative conditions. These works constitute, what may be termed the original or source material for the study of problems of public administration in the United States. It need hardly be said that large use has been made of this material in the preparation of the present work. Especially has the author not hesitated to draw largely upon his previous publications dealing with specific phases of administration, and in so doing he has not always thought it necessary to indicate such action by specific reference or the use of quotation marks. He has also made liberal use of other volumes in the series, *Studies in Administration*, published by the Institute for Government Research. He has felt justified in doing so, since to a considerable extent the character of the volumes was planned by him and in all cases the manuscripts underwent a more or less thorough editorial revision by him.

The second is that this work has been prepared for the use of the student of political science and officials having to do with matters of general legislation and administration rather than the technician. Due to its comprehensive character it has been impossible to enter into the details of the methods of handling such administrative problems as accounting, purchasing, etc. To have done so, moreover, would have defeated the prime purpose of the work, namely, to present a general analysis and picture of administration as a branch of political science. As regards these technical problems the present work can, therefore, lay claim to being little more than an introduction to the subject.

W. F. WILLOUGHBY.

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**PART I**  
**GENERAL ADMINISTRATION AND**  
**ORGANIZATION**





# PRINCIPLES OF PUBLIC ADMINISTRATION

## CHAPTER I

### THE PROBLEM OF PUBLIC ADMINISTRATION

**Definition of Administration.** The term "administration" may be employed in political science in two senses. In its broadest sense, it denotes the work involved in the actual conduct of governmental affairs, regardless of the particular branch of government concerned. It is thus quite proper to speak of the administration of legislative branch of government, the administration of justice or judicial affairs, or the administration of the executive power, as well as the administration of the affairs of the administrative branch of government, or the conduct of the affairs of the government generally. In its narrowest sense, it denotes the operations of the administrative branch only. It is in its latter, restricted, sense that the term is employed in the present volume.

**Distinction between the Problem of Public and Private Administration.** In entering upon this study certain general phases of the problem should first receive consideration. Among the more important of these is that of the determination of the extent, if any, to which the problem of conducting the administrative affairs of a government differs from that of the management of affairs of a private undertaking. The impression is widespread that it is inherently impossible to secure the same efficiency and economy in the administration of public affairs that can be secured in the conduct of private undertakings. It is important that this impression should be subjected to examination for the purpose of determining whether it is well founded, and if so, to what extent.

The basic arguments brought forward in support of the contention that equal efficiency and economy cannot be secured in the conduct of governmental enterprises as in those conducted under private auspices are two: (1) That those exercising primary responsibility for the conduct of public affairs are selected with reference to political considerations rather than their technical competence for the performance of the duties entrusted to them, and (2) that there is lacking that incentive to efficiency and economy which the element of profit gives to private enterprises conducted for gain.

No one can deny the force of both of these contentions. Examination, however, will, it is believed, show that their influence can be, and usually is, much overestimated. It is inherent in the system of popular government, that the legislative representatives of the people, that is, those who perform the important function of acting as the board of directors of the government as an operating organization, will be selected with reference to political considerations rather than their technical competence to direct a great business enterprise. From the policy-determining and order-giving standpoint, the direction of governmental affairs is, and probably always will be, in the hands of a non-professional class. The fact that those exercising this authority have not been technically trained for their work does not, however, necessarily mean that they will perform their duties in an inefficient manner. The prime function of the legislator is to represent and translate into action the wishes of the people; that is, to determine policies and give the necessary orders for putting these policies into effect. This they can better do than can a permanent professional bureaucracy. While not themselves possessing technical competence as regards the framing of the measures through which their determinations are put into effect, they can, and to a large extent do, avail themselves of the technical assistance of those who do have special professional training and experience. Most legislative measures directly affecting administrative activities, either originate in the administrative branch where they are put into force by those having expert knowledge and technical competence or are elaborated in conference with such officials. The legislators themselves, moreover, while not at the outset possessing special competence, become, as the result of experience, steadily more qualified for their work, and it is well known that real control in a legislative body usually rests in the hands of the older and more experienced members. In the actual drafting of measures use can be, and to an increasing extent is, made of technicians known as legislative counsel, bill-drafting officers and the like. The situation, in a word, is not unlike the relationship that exists between the individual who desires to build a house and his architect. The former determines what he wants but avails himself of the technical aid and advice of the technician in realizing his desires.

It is not merely the board of directors of a government, however, that is selected with a view to political as distinguished from administrative considerations. The same is true, with rare exceptions, of the chief executive and the heads of the great administrative departments. Here, too, the same distinction between general and technical direction of affairs can be, and to a large extent is, recognized. While responsibility and ultimate authority resides in the chief executive and the departmental heads, the actual direction

of affairs is for the most part in the hands of a permanent, technically competent personnel. The British system, which provides for a Permanent Under Secretary at the head of each of the great administrative departments, furnishes the most striking illustration of this practice. In the same way, as will be fully shown in the pages that follow, the system has steadily developed of providing the chief executive with a special technical agency, in the form of a bureau of general administration or a bureau of the budget, through which he can perform his duties as head of the administration in an efficient manner. The recent development in the United States of the General Manager type of municipal government is another illustration of the adoption of means of securing technical competence under a system of leadership vested in a politically selected officer.

It is not contended for a moment that legislatures and executives have invariably shown wisdom in seeking and availing themselves of the advice and assistance of technicians in the performance of their duties. All that it is sought to bring out is the fact that, while those exercising chief authority in respect to administrative matters are selected with reference primarily to political considerations, this does not in itself present any inherent obstacle to securing an efficiency in the conduct of governmental affairs comparable to that found in the ordinary private corporation whose activities are on a scale and of a complexity comparable to those of a government.<sup>1</sup>

Turning now to the second reason urged whereby competence in public administration equal to that found in private administration cannot be secured, it will likewise be found upon examination that this factor has much less weight than is usually ascribed to it.

In examining the validity of this argument an important collateral point must first receive consideration. This is the distinction between the problem of administration as it presents itself in the case of an enterprise having a corporate form of organization and one not having such a form. In the ordinary private industrial or commercial business of a non-corporate form, the persons owning the property are in direct charge of its operation and directly and immediately interested in its returns. In corporate undertakings, or at least in corporate undertakings of a magnitude at all comparable to modern governments, this is not so. The managers of the

<sup>1</sup>For an exceptionally able consideration of this subject see Joseph Barthelmy, *Le Problem de la Competence dans la Democratie*, Paris, 1918. In this work the author points out the positive advantage of the governmental system of having the double representation, as it were, of a political and an administrative head. The former, with the constant changes taking place, brings to the department a new viewpoint and tends to prevent the service from becoming a crystallized bureaucracy inimical to change and unresponsive to altered conditions and new developments in administrative procedure.

large corporations have a status and interest in the results not dissimilar from those of officers of the government. Their principal return is in the form of a fixed compensation for their services. They do not have the independent powers of the private manufacturer or merchant, but are subject to the general direction, supervision, and control of a superior authority, in the form of a board of directors and a body of stockholders, in much the same way as administrative officers of a government are subject to the superior authority of a legislature and an electorate. Finally, the great mass of employees, those who have to do the actual work, including all the directing personnel except a relatively few officers, for the most part have no more direct interest in the enterprise or in the profits earned than do the employees of a government.

The comparison of the problem of administration of a government service should thus be made, not with private industry generally, and certainly not with private enterprises conducted by individual owners, but with private enterprises conducted under a corporate form of organization. This is not the place to enter into any consideration of the relative advantages and disadvantages of the individual and corporate forms of organization. It is sufficient to say that practically all enterprises of any considerable magnitude are carried on under the latter form. It is with that form of private organization, therefore, that government services should be compared.

If now the comparison is made on this more restricted basis, it is apparent that the special advantages supposed to inhere in private over governmental enterprises is much less marked. It is true that governmental services are not conducted with a view to making profits in the ordinary sense of the term. Those productive of revenue are run, however, with the aim of producing such revenue at the minimum of cost consistent with the maintenance of proper standards and the rendering of proper services to the public served. If proper operating and cost accounts are kept, there are available the same data by which to judge efficiency as are furnished by profits in the case of private corporations. In a very real sense the element of profits is as much present in the case of such government services as in private enterprises. The only difference is in respect to the disposition of this surplus of earnings over expenses. In one case they are distributed to stockholders. In the other they are paid into the general treasury as a relief to the financial burden to be met by general taxation, or are translated into improved working conditions of employees of its service, improved services to the public, or reinvested in the enterprise. It is, nevertheless, probable that for many years to come a bare comparison of the costs of conducting work under governmental and private enterprises will show a greater cost for the

former. This in itself, however, is not decisive as to the merits of the two systems. In large part this increased cost may be, and often is, due to the superior service rendered or the better working conditions of employees, both of which are as desirable ends as the distribution of cash dividends to stockholders.

Even granting that the element of cash profits represents an incentive that is absent in government enterprises, it is an open question whether it is not more than counterbalanced by the sentiment of public service, the desire to make a success of one's administration and win the public approval that comes from doing so. Almost all of the active life of the author has been spent in the public service of the United States Government, or in work that has brought him into intimate touch with those in charge of the administrative work of that government. His experience is that this feeling is widespread and general, though, of course, exceptions have existed. Such exceptions, however, are to be found in private undertakings. It is doubtful whether a more conscientious and earnest effort to achieve the maximum of efficiency in the discharge of duties can be found anywhere than has been shown by the officials, high and low, of those concerned with the administration of affairs in the Philippines and Porto Rico. The same is true of such services of the national government as the Forest Service, the Reclamation Service, the Panama Canal, the Bureau of Standards, etc. The fact that they were engaged in a public service has given to the personnel an *esprit de corps* and desire to excel that is often lacking in private enterprises and is nearly, if not quite, as strong an incentive to efficiency as the production of profits.

It must be remembered, moreover, that all private corporations are by no means run efficiently and economically. Investigations that have been made in past years of the manner in which private corporations have managed their affairs have shown an astounding amount, not merely of misconduct, but of indefensible extravagance, waste, and inefficiency. The control that stockholders have been able to exert has been no greater, if as great, as that which the citizen stockholders of the public corporation have been able to exercise over the conduct of governmental operations, and in the absence of such control most, if not all, of the abuses, unfortunately too often present in governmental work, have arisen and flourished.

The writer is far from taking the position that governmental affairs as a whole have been, or are being, as efficiently and economically run as those of private enterprises. All that he is seeking to bring out is that the superior advantages of private undertakings, from the standpoint of efficient administration, are much less than are commonly supposed, and that there is no inherent reason why the administration of public affairs cannot be made

closely to approximate, if not to equal in efficiency, that of private undertakings. The attainment of this end is difficult chiefly on account of the magnitude and complexity of the problems presented. This only means that a corresponding effort should be made to arrive at their solution.

**The Political System as a Factor in the Problem of Efficient Administration.** Another general factor affecting vitally the problem of the efficient conduct of the affairs of the administrative branch of government is that of the character of the political system of which the administrative branch is a part. In another work<sup>2</sup> the author has sought to point out the relative advantages and disadvantages, from the standpoint of efficient administration, of the different alternative lines of action that may be taken with respect to such matters as: the adoption of the autocratic or popular, the unitary or federal, and the responsible or presidential type of government; the distribution of powers territorially and functionally; the union or separation of powers; the vesting of final administrative authority in the legislative or executive branch of government, etc. The decision reached in respect to these and many other problems of political organization vitally affect the problem of the efficient conduct of affairs of the administrative branch. These questions thus constitute an integral part of the general problem of efficient administration. They cannot be considered here, however, since to do so would involve an examination of almost the whole problem of government. Attention consequently will be devoted only to the specific or internal problems presented by the administrative branch, these problems being considered primarily from the standpoint of our own political system.

**Analysis of the Problem of Public Administration.** In undertaking a study of any complicated problem the first step to be taken is that of subjecting the problem to analysis to the end that the several factors entering into it may be clearly determined. Doing this, it will be found that the problem of making provision for, and of performing the work falling upon, the administrative branch of government, may be resolved into the following five clearly distinguishable, though intimately related, factors:

1. Problems of general administration
2. Problems of organization
3. Problems of personnel
4. Problems of material or supply
5. Problems of finance

<sup>2</sup> An Introduction to the Study of the Government of Modern States, The Century Company, New, York 1919.

Persons responsible for the determination of the manner in which the work of the administrative branch of the government shall be performed have, in other words, to do the following five things: They must, in the first place, reach certain fundamental decisions in respect to the location and exercise of the general function of direction, supervision, and control. This part of the problem of administration is technically known as that of general administration, or sometimes as overhead administration. They must, next, determine the structural character or organisation of the service or services by means of which the actual work of administration is to be performed. This is a problem which is comparatively simple where but one category of work is to be performed and where, consequently, but one service is required for its performance, as in the case of most private industrial and commercial enterprises, but is correspondingly complicated and difficult where, as in the case of a government, a great variety of work has to be performed and a large number of services must be maintained for its performance. Thirdly, they must make provision for the manning of this organization with a personnel and must determine the conditions under which such personnel will give their services. Fourthly, there is presented to them the problem of securing the physical property in the form of plant, equipment, and supplies to be made use of by the personnel in discharging their duties. Finally, a decision must be reached regarding the manner in which all matters of finance, such as determining and making provision for the financial needs of the services, the custody and disbursement of funds, the keeping of accounts and the rendition of reports, etc., shall be cared for.

As will be seen, each of these primary divisions of our problem is susceptible of subdivision into a large number of more specific problems. This further analysis, however, can best be undertaken as each of the primary divisions is taken up in turn for consideration.



political and legal sense, is vested by constitutional provisions in the chief executive. The administrative function, that is, the function of direction, supervision, and control of the administrative activities of the government, resides in the legislative branch of the government. It is that branch which possesses the final authority to determine how the administrative branch of government shall be organized, how duties shall be distributed among the several parts, and what methods of procedure shall be employed by them. Upon it falls the legal obligation of taking such action as is necessary to ensure that the several administrative organs shall be properly directed, supervised, and controlled to the end that efficient service shall be obtained from them.

This fact that, in the case of our national government at least Congress is the source of all administrative authority is excellently brought out in a very able Senate report on a bill having for its purpose to authorize the heads of departments to appear personally and participate on the floor of the two houses in debates on bills in which they are interested.<sup>1</sup> After enumerating the executive powers of the President, as granted to him by the constitution, the report continues:

The departments and their principal officers are in no sense sharers of this power. They are the creatures of the laws of Congress exercising only such powers and performing only such duties as those laws prescribe. . . The Secretaries were made heads of departments; they were charged by law with certain duties, and invested by law with certain powers to be used by them in the administration confided to them by the laws. They were in no sense ministers of the President, his hand, his arm, his irresponsible agent, in the execution of his will. There was no relation analogous to that of master and servant, or principal and agent. The President cannot give them dispensation in the performance of duty or relieve them of the penalty of non-performance. He cannot be impeached for their delinquency; he cannot be made to answer before any tribunal for their inefficiency or malversation in office; public opinion does not hold him to stricter responsibility for their official conduct than that of any officer. They are the creatures of law and bound to do the bidding of the law.

This constitutional power of Congress to keep the reins of final administrative control in its own hands rather than in those of the President has been amply sustained by the courts. Thus, in

<sup>1</sup> 46 Cong. 2 sess., S. rep. 837, February 4, 1881.

the early case of *United States v. Kendall*,<sup>2</sup> it was declared by a federal circuit court with reference to the Post Office:

The legislature may prescribe the duties of the office at the time of its creation, or from time to time as circumstances may require. If those duties are absolute and specific and not by law made subject to the control or discretion of any superior officer, they must be performed, whether forbidden or not by any officer. If there be no other officer who is by law specially authorized to direct how the duties are to be performed, the officer whose duties are thus prescribed by law is bound to execute them according to his own judgment. That judgment cannot lawfully be controlled by any other person. . . . As the head of an executive Department ( the Postmaster-General ) is bound when required by the President, to give his opinion in writing upon any subject relating to the duties of his office. The President, in the execution, is bound to see that the Postmaster-General discharges "faithfully" the duties assigned to him by law; but this does not authorize the President to direct him how he shall discharge them.

And in *Kendall v. United States*<sup>3</sup> the Supreme Court, in affirming this decision of the circuit court, said:

The executive power is vested in a President, and as far as his powers are derived from the Constitution, he is beyond the reach of any other department, except in the mode prescribed by the Constitution through the impeaching power. But it by no means follows that every officer in every branch of that department is under the exclusive direction of the President. Such a principle, we apprehend, is not, certainly cannot, be claimed by the President. There are certain political duties imposed upon many officers in the executive departments, the discharge of which is under the direction of the President. But it would be an alarming doctrine that Congress cannot impose upon any executive officer any duty they may think proper, which is not repugnant to any rights secured and protected by the Constitution, and in such cases, the duty and responsibility grow out of and are subject to the control of the law and not to the direction of the President. And this is emphatically the case where the duty enjoined is of a mere ministerial character.

The constitutional doctrine thus early declared as to the relation of the Congress to the administrative services which it

<sup>2</sup> 5 Cranch, C. C. 163.

<sup>3</sup> 12 Peters, 524.

establishes, and of those services to the President, has not since been disturbed and fixes to-day the legal status of the executive departments.<sup>4</sup>

The starting point in our consideration of the problem of general administration, as it confronts our major political bodies at least, is thus that primary responsibility for the exercise of this function rests upon the legislative branch of our governments. The first question to be solved is, therefore, that of determining the means that are, or should be, employed by these bodies in meeting this responsibility. If these means are well chosen the first great step toward securing an efficient administration of public affairs will have been taken. If an unwise choice is made all subsequent operations will be put under a handicap that it will be difficult, if not impossible, for them to overcome.

Of these means, much the most important is that which centres around the question of the extent to which the legislatures, possessing the responsibilities and powers, shall themselves attempt to exercise them directly or shall delegate them to subordinate bodies or officers as their agents, over whose acts they will exercise only a general directory or supervisory authority.

**Analysis of the Duties of the Legislature as a Board of Directors.** In seeking to determine the principles that should govern in reaching a solution of this important problem, it is desirable to resolve the function of general administration as it confronts a legislature sitting as a board of directors into the following elements: (1) Determination of activities to be undertaken; (2) determination of agencies and organization to be employed in performing such activities; (3) determination of the personnel of such agencies; (4) determination of the rules of procedure to be employed by such agencies; (5) determination of the amount of funds that shall be rendered available for the performance of such activities and the maintenance of such agencies; and (6) determination of the means that shall be provided for supervising and controlling these agencies to the end that assurance may be had that they are faithfully and efficiently carrying out all orders given to them. In respect to each of these a wide range of discretion is open to a legislative body as to how far it will push its determinations and the precise character that shall be given to them.

**Determination of Activities to be Engaged In.** As regards the first there can be no doubt that the determination of what the government shall do, in the sense of fixing the broad lines of

<sup>4</sup> For a consideration of this question, see F. J. Goodnow, *The Principles of the Administrative Law of the United States*, p. 79.

activities that shall be engaged in, is a responsibility that rests upon the legislature. This, however, is not saying that that body should seek to specify in detail the specific acts that shall be performed in carrying out the activity. Thus, to illustrate, the legislature of a state quite properly is the body to say whether the government represented by it shall undertake the construction of a system of state highways. It is another matter, however, for it to say precisely what roads shall be built, where these roads shall be located, the order in which they shall be taken up for construction, etc. In general, it may be said that it is inadvisable that a legislature should seek to push its directions this far. The desirable method is that employed by the government of Porto Rico while the writer was serving as treasurer of the Island. At the outset of the effort to provide an improved system of highways, it subjected the whole problem to careful study and worked out a comprehensive system of road construction, which was submitted to and received the approval of the legislature. Thereafter, the legislature determined each year the amount of money which the state of the finances of the government permitted it to vote for work on this general project. The application of this money to particular parts of the program was, however, left to the administrative branch.

In marked contrast with this is the system which was long employed by the national government in authorizing and providing for the improvement of rivers and harbours. Here the Congress, with rare exceptions, pursued the policy of specifying in detail the particular projects to be undertaken and the amount of money to be devoted to each. It failed to work out or adopt any comprehensive scheme of river and harbour improvements; that is, one showing the work to be done and the relative importance or urgency of the several projects that would be embraced in it. The same policy was pursued in respect to making provision for public buildings. The result of this practice was condition of affairs that was generally recognized as a national scandal. The general welfare was subordinate to the supposed welfare of the particular districts and the door was thrown open to the well-known evil of "porkbarrel" legislation, put through by the equally vicious "long-rolling" device.

The objections to having the legislature determine in detail the particular projects to be undertaken and the order of their performance are partly political and partly administrative. The political objections are that the legislature is composed of members representing particular districts, who whatever may be their theoretical obligations are, in fact, interested primarily in their particular districts. The administrative branch, and particularly the

chief executive, if he is given his proper status as a general manager, represents, and is primarily interested in, the entire territory and government of the state. From the administrative standpoint the system of too great legislative itemization renders it impossible for the chief executive to make the most effective utilization of the engineering organization, plant, and personnel, and to meet exigencies that are only fully developed during the progress of the work.

Fortunately, Congress in time recognized the evils of this system and took the unnecessary steps to correct them. Beginning with 1914, the radical change was made of voting appropriations for river and harbour improvements as a lump sum discretion being granted to the administrative authorities to allot the expenditure of this money to the projects authorized in accordance with their best judgment. A similar change in procedure was made in respect to provision for public buildings in 1926. In the public buildings act of that year, which was the largest public buildings act ever enacted, the duty, with certain limitations of determining the character and location of public buildings to be erected under its provisions, was entrusted to the Secretary of the Treasury, acting in co-operation with the Postmaster-General. Regarding this act, Mr. Madden, the Chairman of the Committee on Appropriations of the House said:<sup>5</sup>

The bill represents a distinct departure on the part of Congress in public buildings. It is a general authorization bill instead of a bill authorizing specific projects as heretofore has been the practice. . . . Appropriations have been made for a survey to be made jointly by the Secretary of the Treasury and the Postmaster General to determine the needs of the various localities for public quarters. Estimates will be prepared for submission to Congress through the Budget for such projects as merit consideration and the erection of buildings. The new act marks a reform in public building procedure and the paramount considerations under it must be the needs of the service based upon the business to be transacted.

The change on the part of Congress, in respect to its function of determining activities, undoubtedly represents a saving from the standpoint of efficiency in the application of funds amounting to millions of dollars. It furnishes a striking illustration of the importance of the subject under consideration; that, namely, of the adoption of a proper procedure by the legislative body in

<sup>5</sup> *Cong. Record* July 2, 1926,

performing its function of determining activities to be entered upon.<sup>6</sup>

It is not desired to stress the foregoing considerations too strongly, since it is recognized that the legislature should have some voice in determining the particular projects to be undertaken and the order in which they should be taken up. It is only desired to point out that the primary function of the legislature should be that of determining the general program and the rapidity with which its execution should be prosecuted. Beyond this it should proceed conservatively, and its further specification should be directory rather than mandatory upon its general manager.

If we turn from special activities, such as those represented by public works, the arguments are still stronger in favour of the legislature contenting itself with the determination in general terms of lines of activities to be engaged in and leaving to the general manager and his subordinates discretion in respect to the particular work to be done in prosecuting these activities. In the national government there can hardly be any doubt but that the Congress makes its instructions in far too great detail. The result is to give a rigidity to administration that often militates against efficiency and makes it impossible for administrative officials to meet emergencies and do the things most urgently needed.

In considering this question, account must be taken of the sixth element into which we have resolved the problem of general administration as it confronts the legislature; that, namely, of supervision and control. This arises from the following fact. One of the main objects sought by legislatures in specifying in detail what shall be done, is that of exercising a control over the expenditure of money. This control, as will be pointed out when we consider specially this element, can be exerted in two ways: by specification in advance, or by requiring full information regarding how a general grant of powers is exercised. In proportion as one means of control is foregone, the other should be strengthened. Any decision on the part of a legislature to give to its general manager and his subordinates, large powers of discretion, should be accompanied by rigid requirements in respect to their keeping and rendering full and detailed accounts and reports as to how these powers have been exercised. It is believed that if adequate provision is made in this direction, legislatures will be willing to forego the exercise of their right to specify details in advance to a much

<sup>6</sup> For a fuller account of this change in procedure by Congress in providing for public works, see Chapter XV, "Appropriations for Public Works," in the volume by the present writer, "The National Budget System, with Suggestions for Its Improvement" (1927). Institute for Government Research, Studies in Administration.

greater extent than is now the case. In doing so they would more closely approximate the manner in which this problem is handled by private corporations.

**Determination of Agencies and Organization.** The question of the extent to which the legislature should seek by direct legislation to prescribe the agencies and organization that shall exist for performing the activities decided upon, presents considerations similar to the ones we have just been discussing, but involving certain other features. The question here at issue is the point at which it is advisable that the legislature shall stop in determining not only the distinct services that shall be created for the performance of administrative duties, but also the internal organization of these services. If the national government is taken for illustrative purposes, it is possible to distinguish at least the following gradation of organization units: departments, bureaus, divisions, and sections. If the service is one calling for operations in the field, there must also be included the special class of organization units known as field stations.<sup>7</sup> Concretely, therefore, the problem is: Shall the legislature leave the whole matter of organization to the chief executive as general manager; shall it determine organization, in so far as the primary units of organization, the departments, independent boards, commissions, etc., are concerned, leaving it to such bodies, acting under the general control of the chief executive to provide for the character of internal organization of those services; or, shall it push its determinations still further so as definitely to prescribe by law, not only departmental and bureau organization, but also the subdivision of these, the divisions, and the final working units, the sections and field stations?

In entering upon a consideration of which of these alternative lines of policy should be followed, it is desirable to consider the manner in which this matter has actually been handled by representative governments. In the case of a few national governments and certain of our states, the number and character of the administrative departments that shall be set up for the handling of administrative affairs have been more or less definitely determined by constitutional provision. In the opinion of the writer this is wholly an unwise procedure. Especially is this so when, as in the case of

<sup>7</sup>The designation of organization units here given is a purely formal one. Actually there is no established usage in designating subdivisions of a service. Not only may other terms such as "office," "branch," "post," etc., be employed, but when the terms given are used they may be used in a different order; *e. g.*, "division" may be used to designate a subdivision of a "section" instead of "section" as a subdivision of a "division." Many primary subdivisions of a department, moreover, are not designated as bureaus; *e. g.*, "Office of Supervising Architect of the Treasury," "Geological Survey," "Division of Appointments," etc.

our own governments, a change in constitutional provisions can only be made with great difficulty. It is quite proper for a constitution to provide for the establishment of such departments, and, within certain limits, to determine their powers, but the actual enumeration of the several departments to be created should be left to legislative determination. One has only to trace the administrative history of our national and state governments to see how frequently the necessity has arisen to create new departments for meeting new needs and to reorganize those already in existence. In view of this, it is fortunate that our own federal constitution made no attempt to limit in any way the power of the Congress in this respect. Though Congress has not always acted with the promptness and wisdom desirable, it has, nevertheless, always had it within its power to make provision for such administrative departments as in its opinion were needed for the proper conduct of public affairs.

Assuming, therefore, for purposes of future consideration that the legislature has plenary power in respect to the determination of the organization of the administrative branch of the government, the next question presented is as to whether it should itself by statute fix the number of departments and independent establishments such as boards, commissions, etc., and determine the jurisdiction of each. Examination shows that this matter has been handled in a different way by most European governments on the one hand and by our own governments, national and state, on the other. In the former large, if not full, powers have been left to the chief executive, acting through the prime minister, and with or without the approval of a body having the character of an executive council, to create new departments or to make a readjustment of those already in existence. Particularly is this true of France, where a number of departments have been created by executive decree. In our own government no such grant of power has been made to the executive except, it is believed, in the single case of the grant of authority made by Congress to the President of the United States to establish new agencies and to reorganize existing ones for the effective prosecution of the World War.<sup>8</sup>

<sup>8</sup>By the passage of what was known as the Overman Act, approved May 20, 1918, Congress authorized the President "to make such redistribution of functions among executive agencies as he may deem necessary, including any functions, duties and powers hitherto conferred upon any executive department, commission, bureau, agency, office, or officer, in such manner as in his judgment shall seem best fitted to carry out the purposes of this Act." The only limitations upon this power was that it should cease six months after the termination of the war by the proclamation of the treaty of peace, or at such earlier time as the President might designate, and that the authority granted should be exercised only in matters relating to the conduct of the existing war, and that, upon the termination of the act, the several services should resume the



Too much stress should not, however, be laid upon this difference between European and our own governments, which is due almost wholly to the different character of their political systems, and especially to that feature which in the case of the former class of governments makes the executive responsible to the legislatures. Considering the characteristic feature of our own political system, under which the executive is not politically responsible to the legislature, it may, it is thought, be stated that it is both proper and desirable that the legislature, except where such unusual contingencies as war have to be met, should itself prescribe by organic act the number and jurisdiction, in so far as their general function or purpose is concerned, of the several departments and independent agencies that shall exist for performing the administrative work of the government. This determination should extend not only to the departments, but also to the primary subdivisions of these departments in so far as the latter consist of distinct services having clearly defined functions of their own to perform. In the case of our national government it should thus extend not only to the so-called executive departments and independent establishments, but also to the primary functional services, such as Bureau of Mines, Bureau of Internal Revenue, etc., of the former. In a word, it is believed that under our form of government, at least, it rests upon the legislature to determine by its own direct act the general scheme of organization of the administrative branch of the government. That in doing so it should be guided largely by the advice of its general manager, the chief executive, is quite true, but the act of determination should be its act and these services should have a legislative status, in the sense that their existence and the general scope of their functions are determined by statutory law.

When we pass from this class of organization units to those of a lower order, we are confronted with quite a new set of considerations. We have here to deal, not with distinct services, but with subdivisions of services which are set up purely as a matter of administrative expediency in order that the work to be done may be parcelled out in accordance with its character. It is at this point that the question of the extent to which the legislature should seek to determine organization becomes a serious one. The considerations involved are, as has been pointed out, administrative rather than those of policy. Generally speaking, therefore, it would be part of wisdom to leave those in actual charge of the conduct of work the widest possible discretion consistent with maintaining an

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exercise of the functions and duties that they had previously had unless Congress otherwise determined.

For a full account of the exercise by the President of the powers thus granted to him, see the author's volume, *Government Organization in War Time and After*, D. Appleton & Company, New York, 1919.

adequate control. When a service is of long standing, and its work and organization have, so to speak, become shaken down or stabilized, there is no particular objection to, and some advantage in, having the more important working subdivisions of a service given a statutory status. This is especially so in reference to such subdivisions as the offices of chief clerk, superintendent of building, appointment clerk, disbursing officer, division of mails and files, etc., which have to do with the purely business operations involved in operating the service as an institution rather than in performing the work for which the service is maintained. As a rule the experience of most services, of the national government at least, is that when a service is first created the legislature contents itself with making only the most general provision regarding its internal organization, but tends steadily to push its determinations in respect to organization further and further as the work of the service becomes stabilized and fuller information regarding its organization needs becomes available. It is impossible to lay down any general rule that will be applicable to all cases as to how far this legislative fixing of internal organization of services should go. Each service must be considered in the light of its special conditions. It is thus evident that it is quite feasible, if not desirable, that the legislature should determine in greater detail the organization of a service having the administration of a definite body of substantive law than one having merely a general function of promoting the interests of the public in a certain field through the prosecution of research work or activities in other ways. The only general statement that can be made, therefore, is that the legislature should be careful to refrain from providing by statute for subdivisions of a service the need for which is not clearly established and recognized by the service itself.

The matter of the extent to which the legislature should itself determine the number and location of stations in the field, in the case of those services which have to maintain field establishments, presents a question requiring special consideration. This question is one of great importance in the case of our national government. There is a tendency for one to take the attitude that the affairs of the national government are conducted at Washington. In point of fact the offices there located are for the most part but those of control or overhead administration, the great bulk of the work being done in hundreds and thousands of field stations scattered throughout the United States and, indeed, in many cases throughout the world. Reference is made to such great field establishments as those of the post offices, army posts, naval stations, customs and internal revenue districts, land offices, fish culture stations, mints, assay offices, etc.

With respect to the determination of the number and location of these field stations, Congress has followed no consistent principle.

In some cases it provides by law for stations that shall be maintained and for the division of the territory of the United States into districts for purpose of local administration. In other cases it has left a comparatively wide field of discretion with respect to their determination, either in the hands of the services themselves or in those of the President. The best example of these two different methods of handling substantially the same problem is probably furnished by the manner in which the field establishments of the customs and internal revenue services have been handled. With respect to the first, Congress has from the beginning of the government adopted the policy of rigidly providing by law the districts into which the country shall be divided for administrative purposes and the number and character of offices that shall be set up in each district. The only departure that it has made from this policy was that represented by a provision contained in the sundry civil appropriation act for the fiscal year 1913, which authorized the President to make a reorganization of this field establishment through the abolition or consolidation of existing districts and offices, the creation of new districts and offices and the relocation of boundaries of districts retained in such a manner as would better correspond to the needs of the service and bring about a more efficient and economical administration of its affairs. The law, however, provided that the system resulting should thereafter continue in force until changed by law. Though a great improvement in the service was thus effected, the system, however, still remains one that is prescribed by Congress and can only be modified by its act. In marked contrast with this, the law providing for the organization of the internal revenue service grants to the President full power to divide the country into convenient collection districts and from time to time to make such changes in this system as he deems desirable in securing proper administration of the service.

It would take us too far astray to attempt to state the policy pursued by Congress in providing for the field establishments of the other services. It is only necessary to say that, while there are a considerable number of cases where Congress has granted more or less discretion to the President or to the heads of departments and services with respect to the fixing of the number and boundaries of districts and the number and location of field stations, Congress in general itself seeks to determine, either by general legislation or by the manner in which it makes appropriations, just what field stations shall be maintained. Particularly is this true with respect to such important stations as army posts, naval stations, mints, assay offices, fish culture stations, etc.

In the opinion of the writer this policy is in almost every case a mistake. This arises from a number of considerations. In the first place it is impossible for Congress to handle this matter in as

intelligent a manner as those directly responsible for the conduct of the affairs of the services involved. Secondly, it gives to the services a rigidity of organization that is highly detrimental to their efficient operation. The frequency with which the President uses his power to revise the system of internal revenue districts is an evidence of the need for flexibility in respect to this feature of organization. Thirdly, it imposes upon an already overburdened Congress responsibilities of which it should be relieved. Most important of all, however, is the fact that when the decision rests with Congress to determine field posts it is certain that this power will be exercised with a view to promoting local interests rather than those of the government as a whole. Recent years have furnished abundant evidence of the evils resulting from this fact. Both the Secretary of War and the Secretary of the Navy have again and again urged in vain the abolition of useless army posts and navy stations. It was only after years of effort that the administration succeeded in securing from Congress the abolition of the useless pension agencies. There are few more glaring instances of waste and extravagance in the conduct of national affairs than is involved in the retention of unnecessary local offices.

**Determination of Personnel.** Passing now to the matter of personnel we are confronted with one of the most difficult questions that has to be answered in seeking to determine at what point legislative direction should cease and administrative discretion begin. In considering this question certain fundamental distinctions must be kept in mind. The first of these is that between directing personnel, that is, those who have the responsible direction of services and constitute what are known as officers in the common acceptance of that term, and employees proper, that is, those occupying subordinate positions and having as their general duties the carrying out of orders given them.

As regards the first of these two classes, there can be little doubt that, speaking generally, the legislature should itself determine their number, character, compensation, powers, and duties. This is the practice of most, if not all, private undertakings of a corporate character, and the arguments in favour of it are still stronger in the case of political bodies. In respect to this class the only question that is presented is how deep into the organization of the several services this determination shall go. Shall it stop at the heads of departments and members of boards and commissions, the heads of the bureaus into which such departments and establishments are divided, the heads of the primary subdivisions of such bureaus, or the heads of the working units, the sections, field stations, and the like? Which of these alternatives should be adopted, depends in large part upon the policy pursued by the

legislature in making statutory provision for the organization of the services of the government. Wherever it has provided by statute for the existence of an organization unit, it is but logical that it should determine the character of the officer that should be placed in charge of it, his compensation, tenure of office, method of selection and the general scope of his powers and duties. The two should run together. All of the arguments that have been given against the legislature seeking to fix organization in too great detail apply equally to the creation by statute of officers to have charge of subordinate units of organization.

As regards the second class of employees, those falling outside of the directing personnel of the higher order, the problem of determining the extent to which the legislature should attempt to fix their character and number is a much more difficult one. In considering this problem it is necessary to distinguish between the two ways in which a legislature can act in reference to it. These two ways are: by general statute or by act of appropriation. There can be little doubt that it is unwise for a legislature to seek to control personnel, other than directing personnel, by the first method. Under existing conditions the securing of general legislation is a matter of great difficulty. Any attempt to prescribe limitations upon subordinate personnel in this manner gives rise to a rigidity that is sure in many cases to work injury. The proper wording of an act having for its purpose to set up a service should be somewhat as follows. After providing for the directing personnel, the clause should be added "and such other officers and employees as may be from time to time provided by law." This leaves it open to the legislature to determine each year the provision that shall be made for the subordinate personnel of a service at the time that the grant of appropriations for the service is under consideration.

This is not the place to consider in any detail the question of the extent to which the legislature, in its annual or biennial appropriations, should seek to fix rigidly the number and compensation of the employees that the services of the government shall be authorized to employ, since this is a subject that can better be handled when we come to treat of that class of problems of administration having to do with finance. It will not be out of place, however, to mention certain general considerations that will be more fully handled there. The most important of these is that the legislature, in appropriating for the support of a service, can proceed in a number of different ways: it can specify in detail the number and compensation of each class of employees that may be employed in each recognized unit of organization; or it can grant a lump sum that shall be available for the employment and compensation of personnel, but which shall be expended subject

to certain limitations in respect to the number of employees that may be employed in any designated class or that may be given certain rates of compensation; or it may grant a lump sum for the compensation of employees, leaving it wholly to the discretion of the services to which it is granted to determine the manner in which this sum shall be expended. Which of these methods should be employed, will depend upon the manner in which the whole problem of personnel is handled. To anticipate that which will hereafter be considered in detail, it is highly desirable that a government shall by general law provide for a detailed classification of all administrative employees. Such a classification should set forth a complete enumeration of all positions required for the conduct of the public business, describe the character of the duties of each position and the qualifications required of incumbents, and fix the compensation attaching to the office. This act will, thus, prescribe the more general limitations that must be observed by all administrative services in respect to the employment of personnel. If this is done and full report is required from all services in respect to the number of persons employed, classified according to this scheme of classification, it becomes feasible for a legislature to make its appropriations for the employments and compensation of personnel under general heads. It is hardly necessary to say that it is desirable that this policy of leaving to the services a maximum of discretion in respect to the determination of their personnel needs, provided that the total amount granted is not exceeded and other limitations contained in the classification of personnel act are observed, is the one that should be followed.

As in the case of authorization of public works, Congress has recently taken action enormously improving its system for providing for personnel. Prior to 1923 Congress sought in its annual appropriation acts to prescribe in great part the precise number of employees that might be employed at each grade and rate of compensation. By the Classification Act of 1923, however, it provided for the working out and adoption of a system of classifying all governmental employees, a uniform scheme of nomenclature of positions, and the compensation attached to each position. The adoption of this system has made it possible for Congress to abandon its old practice of specifying in detail the precise number of employees of each class and compensation rate that may be employed by a service and to make its appropriations for personnel in a lump sum. This has simplified the work of Congress and at the same time gives a flexibility to the system that has contributed greatly to administrative efficiency.<sup>9</sup>

<sup>9</sup> For a fuller account of the new system and its advantages, see Chapter XIV, "Appropriations for Salaries," in the volume of the present writer. *The National Budget System.*

The foregoing by no means exhausts the subject of the extent to which the legislature should seek to determine personnel conditions by general legislation or appropriation. Other features are method of selection, compensation, hours of labour, leave conditions, the right of transfer from one service to another, etc. All of these are matters which are more properly to be handled when we come to a consideration of problems of personnel.

**Determination of Rules of Procedure.** The question of the extent to which the legislature should seek to prescribe the rule to be followed and the methods to be employed by services in performing their functions is likewise one regarding which it is difficult to give any general answer. There are, however, certain general distinctions or considerations that should be borne in mind in seeking to handle this matter. Among these the most important is the distinction between those procedural rules which affect the interests or rights of persons outside of the service and those which have to do with purely administrative operations within the service. The former, it is believed, should be embodied either in statute or in formal rules and regulations drafted and promulgated in pursuance of direct grant of authority by the legislature and declared to have all the force and effect of law. Of this category are the rules and regulations setting forth the procedure to be followed in assessing and collecting taxes, in the grant of patents, copyrights, and trade marks, in the lease or sale of public lands, etc. These are matters affecting personal and property rights in a most direct manner. It is imperative, therefore, that they should be governed by provisions of a formal legal character. The question as to whether these provisions should be embodied in statutes or in rules promulgated by administrative agencies in pursuance of a special grant of authority, is one of the most important topics falling in the field of administrative law. It involves a consideration of that exceedingly interesting question of the delegation of legislative powers. Important and interesting as this question is, it is one into which we cannot here enter, since our main interest lies in the narrower field of administration, strictly speaking. It may be said in passing, however, that much depends upon the policy pursued by the government in respect to the creation of special organs for the express purpose of exercising delegated or quasi-legislative powers, such as privy councils, executive councils, the chief executive in council, etc. Other elements of this problem are the determination as to whether the rules and regulations shall be embodied in service orders, departmental orders, or executive orders; that is, whether they may be prepared and promulgated on the authority of the services to which they relate, on that of the head of the department exercising overhead authority over the service, or on

that of the chief executive acting alone or in council ; and whether such rules, before becoming effective, require the approval of a superior authority or the legislature itself. The advantage of having provisions of this character embodied in statutes lies in their more formal character and possibly in the greater certainty of their legal force. The advantage of having them embodied in executive, departmental or service rules and regulations lies in the fact that they are drafted by the services directly familiar with the conditions to be met and thus technically better qualified to formulate them, and in the greater ease and expedition with which they can be modified to meet changing conditions or to correct defects that have been developed as the result of their practical operation.

As regards the second class of rules of procedure, those having for their purpose to regulate the manner in which the services shall perform their work, it is certainly the part of wisdom to leave wide discretionary powers to the services concerned. Notwithstanding this, most of our legislative bodies refuse to act upon this principle. In many different ways they seek to prescribe the details of procedure that shall be employed. In doing so their intentions are for the most part of the best. They seek to correct evils or prevent abuses which have come to their attention. In accomplishing this end, however, they introduce other evils far greater than those they are trying to correct. Government services are under constant criticism for the amount of red tape involved in the transaction of their business. To a large extent this is due to the necessity under which they rest of complying with regulations which have been imposed upon them by legislation. As will hereafter be pointed out, it is of course proper that the legislature should properly control its administrative agencies. This control, however, should be exercised through a proper system of accounts, reports, audit, etc., rather than through the attempt to specify procedure in advance.

**Determination of Grant of Funds.** That the legislature is the body to determine the amount of money that shall be available for expenditures, is a provision of all modern constitutional systems. The only question is the extent to which it shall specify in detail the manner in which the money so rendered available for expenditures shall be expended. This question, which is one of the most important of all those having to do with a delimitation of the fields of legislature and administrative determination, is one that can better be considered when we bring under discussion the class of problems having to do with finance. It is only mentioned here as one of the elements involved in fixing the relative fields of operations of the two branches of government.



**Determination of Means for Legislative Supervision and Control.** It has been pointed out that the starting point in considering the problem of administration as it confronts our governments, is that the legislature is the possessor of all administrative authority. The actual exercise of this authority it delegates in large part to special agents, who are known as administrative officers. The relation between the legislature and these officers is that of principal and agents. Now it is a canon of administration that all grants of authority should be accompanied by means for ensuring that such grants are properly exercised. To state this in another way, it is imperative, if proper administration is to be secured, that the organ granting the authority shall provide means by which it, as principle, shall be able to exercise a due supervision and control over its agents and be in a position to hold them to a strict accountability for the manner in which they discharge the duties imposed upon them. A legislature has thus performed but a part of its duties when it provides for administrative agencies to act on its behalf and instructs them in respect to their powers and duties. It is still incumbent upon it to make adequate provision for ensuring that these agents properly perform their duties.

A study of the problem shows that the means through which this supervision and control may be exercised and accountability enforced are the following: (1) The requirement that all administrative officers shall keep proper records of their official acts; (2) the requirement that these officers shall at stated intervals, and at least once a year, submit reports giving a full account of their act; (3) the requirement that accurate accounts shall be kept of all financial transactions and reports of such transactions be made in such form that full information regarding their character is furnished; (4) provision for a system of examination or audit of these accounts with a view to determining their accuracy and legality; (5) provision for the consideration by the legislative bodies, acting directly or through properly constituted committees, of the administrative and financial reports with a view to determining not merely the legality of the action taken, but also the efficiency and economy with which official duties have been performed; (6) the requirement that administrative officers shall furnish information regarding specific acts by them when called upon so to do by the legislative bodies; and (7) provision for special investigations or inquiries of a comprehensive character of the manner in which affairs have been conducted by a particular service or services.

Manifest as is this obligation of legislative bodies and well known as are the means through which it may be met, there is no feature of public administration that is more unsatisfactorily handled. In no small degree the inefficiency and waste that

characterizes the conduct of public affairs at the present time is due to the failure of legislatures to take the action which is required to hold administrative officers to a due accountability for the manner in which they perform their duties. Though the obligation is a direct one of the legislature, that body has rarely applied itself to the problem of working out the means by which it should be met. Instead of determining and prescribing the character of records that shall be kept and of accounts and reports that shall be rendered, it has left its agents largely free to do as they please in respect to these matters. The result is that rarely do legislatures secure that information regarding the acts of their agents which it is essential that they should have if they are to determine the fidelity and efficiency with which the latter have discharged their duties. Though all of our legislative bodies make provision for the audit of accounts, the system of audit is rarely a satisfactory one. And still more rarely have these bodies made any adequate provision for considering the facts that are brought out, or should be brought out by such audit and of taking the action that such showings reveal to be necessary.

In general it may be said that our legislative bodies have failed to perfect the instruments of control represented by the first five of the means that have been enumerated, and have relied too largely upon the last two. The system of special calls for information through resolutions of enquiry as employed by the national government or through the interpellation and question and answer system of European governments undoubtedly serves a valuable purpose. The same is true of the special investigations made by committees of Congress and to a less extent by committees of our state legislatures. These enquiries and investigations, however, serve only a special purpose, are fitful in character, and too often are dominated by political considerations rather than those of permanently improving conditions. The general investigations, moreover, are made under disadvantageous conditions due largely to the lack by the committee of technical qualifications for developing and interpreting the facts. They entail great expense, and often seriously interfere with the work of the services that are under investigation. That such special investigations are necessary, is evidence of the fact that inadequate means exist for currently receiving the information that is needed for control purposes.<sup>10</sup>

<sup>10</sup> The scope of the powers of Congress to conduct investigations, and especially to compel the attendance, testimony, and production of papers by persons who are not government employees, is a matter that is not yet fully determined by the courts. The most recent and much the most important decision on this subject is that rendered by the Supreme Court of the United States, January 17, 1927, in the case of John J. McGrain, Deputy Sergeant at Arms of the United States Senate v. Mally S. Daugherty. This decision, though sustaining the power of

In the case of the national government a great improvement in respect to the discharge of this function has been brought about by the provisions of the Budget and Accounting Act, 1921, which provided for the creation of the independent General Accounting Office, which has the duty not merely of making an independent audit of all administrative accounts, but also of reporting to Congress wherein improvements in the methods of conducting the public business can be effected. Important as this change is, it fails of accomplishing its full purpose through the failure on the part of Congress to make provision for a standing committee on public accounts analogous to the Committee on Public Accounts of the British House of Commons which shall have the duty of receiving the reports of the Comptroller General, considering their findings and bringing to the attention of Congress action that is required in order to correct undesirable conditions thus made known.<sup>11</sup>

This whole subject of instruments of control through records, accounts, reports, and audit is one which will be handled at length later on. Here we will content ourselves with a bare statement of the problem as one of the important elements in determining the scope and character of the duties of a legislature in acting as a board of directors for the government corporation in respect to which it has the primary administrative authority and responsibility.

**General Summary.** In the foregoing we have sought to bring under examination one of the most important and difficult questions presented by the whole problem of providing for the efficient

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Congress to compel testimony by a person not an employee of the government, rests upon the authority of Congress to do what is necessary in meeting its function of drafting legislation rather than upon its authority to investigate the conduct of administrative affairs. The decision is thus not decisive in respect to the investigatory powers of Congress where no reference is had to possible legislation. If this issue were squarely raised it is probable, however, that the power of Congress would be affirmed.

<sup>11</sup>This subject of the nature of the obligation that rests upon legislative bodies to see that its orders are faithfully complied with by their administrative agencies and the measures that have been resorted to to meet this obligation, is one that has never received adequate consideration. A comparative study of the ways in which this problem is met by the leading governments of the world would be an exceedingly valuable one. It is a matter of no little interest that especial attention was given to this matter by those responsible for the framing of the new constitutions of the governments coming into existence as the result of the World War. In many of these constitutions, notably those of Czechoslovakia, Germany, Prussia, and other German states, provision has been made for parliamentary commissions to sit between sessions and having the function among others of exercising a supervision, if not a control, over the conduct of administrative affairs.

management of the administrative affairs of a government. To this end our consideration has largely centred around the question of the extent to which the legislature should attempt by direct legislative enactments to prescribe the activities; the agencies, organization, plant, and personnel; the rules and regulations that shall govern those agencies; and the limitations that shall be set up with respect to the expenditure of funds. In handling these matters a legislature is confronted with opposing considerations exceedingly difficult to harmonize, but which must be harmonized if an efficient administrative system is to be secured. On the one hand, the legislature, as the organ of public opinion, the possessor of administrative powers, and the fund-raising and fund-granting authority, has the responsibility of determining what the government shall do, of prescribing in general terms at least the character of agencies that shall be set up for the performance of activities and the conditions that shall be observed by them in doing such work, and of holding these agencies to a rigid accountability for the manner in which they discharge their duties. On the other hand, it has to meet the practical condition that any attempt to push its determinations in respect to these matters too far will result in the effort to do work which is beyond its competence and in the establishment of a rigidity of organization, procedure, and work that will be destructive of efficiency in action. Concretely, the problem that confronts it is to harmonize the apparently conflicting elements of effective direction, supervision, and control on the one hand with flexibility and proper powers of discretionary action on the other. A too-detailed specification and control over what shall be done and the means and procedure that shall be employed in doing it, is productive of harm in three ways: it results in ill-advised action, since it involves the making of decisions which can only be intelligently made by those actually in charge of the work to be done and thus familiar with the conditions to be met; it weakens the sense of responsibility of administrative officers; and it makes it impossible for those officers to adjust their actions to varying needs and do those things which must be done if efficiency and economy are to be secured. On the other hand, a too-general specification of what shall be done and a too-large grant of discretionary powers, accompanied by an inadequate system of supervision and control, means that the legislature has failed properly to discharge its duty of determining the activities to be engaged in and the conditions under which they shall be performed and throws open the door to administrative abuses of a wide range.

In what has been written above the attempt has been made to indicate some of the aids to navigation which will enable the legislative ship to steer a middle course. It is only desired, in conclu-

sion, to mention here a consideration, proper observance of which will greatly aid in arriving at a proper solution of the difficulty. This is the distinction between the exercise of control through specification in advance and that through the requirement of full report of action taken. In the one case the legislature controls by specifying in detail precisely what shall be done and the means that shall be employed in doing it. In the other it gives its directions in general terms but provides that the officers charged with their execution shall furnish it with detailed data regarding their action. As between those two systems there can be little question that the latter is the superior. Unfortunately, the former is the method commonly employed by our legislative bodies. They have made this choice not because they have desired themselves to regulate details but because it has appeared to them as the only means of control. Their fundamental mistake has been in failing to recognize the effectiveness of the control that might be exercised through the second method. Until they have made effective means for control through such method, it is impracticable for them to abandon the first. It is, thus of the utmost importance that every effort should be concentrated upon the perfection of a system of accounting, reporting, and audit that will currently and automatically, as it were, furnish the legislature with precise and full information regarding the acts of all administrative officers and detailed data regarding administrative organization, procedure, condition, and results of work undertaken. If to this is added a system under which the legislature will as a current part of its duties subject these data to careful scrutiny the latter body will find that the opportunities for control thus offered will be far superior to those furnished by the attempt to specify action in advance. Just in proportion as it strengthens its means of control in this way it can give up its attempt to control by specification in advance. By this means, and by this means alone, can it harmonize these two essential features of a proper administrative system—control and flexibility in action.

As John Stuart Mill, over sixty years ago pointed out in his remarkable chapter entitled "Of the Proper Function of Representative Bodies"<sup>12</sup> a legislative assembly is not fitted to handle administrative affairs.

Instead of the function of governing (i. e., administering), which it is radically unfit for, the proper office of a representative assembly is to watch and control the Government; to throw the light of publicity on its acts; to compel a full exposition and justification of all of them which any one considers questionable; to censure them if

<sup>12</sup> Essay on Representative Government, 1861

found condemnable, and, if the men who compose the Government abuse their trust, or fulfil it in a manner which conflicts with the deliberate sense of the nation, to expel them from office, and either expressly or virtually appoint their successors. . . . This is surely ample power and security enough for the liberty of a nation. . . . Nothing but the restriction of the function of representative bodies within these rational limits will enable the benefits of popular control to be enjoyed in conjunction with the no less important requisites (growing ever more important as human affairs increase in scale and in complexity) of skilled legislation and administration.

Nowhere, so far as the writer is aware, has this vital question of the function of legislative chamber in relation to administration been more clearly and accurately stated. In it is to be found the explanation why the British parliamentary system, which is conducted strictly on the principles there laid down, works so smoothly and efficiently in respect to the formulation and execution of administrative programs, and why our political system, in which these principles do not find expression, gives quite contrary results.

## CHAPTER III

### THE CHIEF EXECUTIVE AS GENERAL MANAGER

Next in importance, in working out a proper administrative system for a government, to the determination of the extent to which it is desirable that the legislative branch shall seek to exercise its administrative powers or delegate such exercise to administrative agencies, is that of reaching a decision as to whether such delegation shall be direct to the several administrative officers or to the chief executive viewed as the official superior of those officers. There can be no doubt regarding the manner in which this question should be answered. It can be stated without any hesitation that a prime requisite of any proper administrative system is that the second alternative shall be adopted; that, in a word, the chief executive shall be given all the duties and powers of a general manager and be made in fact, as well as in theory, the head of the administration. From the standpoint of the legislature, this means that the latter will look primarily to the chief executive for the efficient carrying out of its administrative determinations.

**Legislative Grant to the Chief Executive of Administrative Authority.** It has been pointed out that constitutionally, that is, as the result of direct constitutional grant, the President of the United States possesses no administrative authority. From the purely constitutional standpoint he, thus, is not head of the administration. Even the heads of the great executive departments constituting his cabinet are not his subordinates in the sense that he has legal authority to give orders to them in respect to the performance of their duties. From the legal standpoint his authority in respect to them is executive in that it consists merely of his right to take such steps as may be necessary to see that such orders as are given to them by law are duly enforced. Substantially the same condition exists in the individual states in respect to the constitutional status and powers of the governors. To state this condition in another way, the line of authority in both the national and state governments runs directly from the administrative services to the legislature, except where the latter has expressly provided otherwise.

The foregoing constitutes the theory upon which the location of administration authority is determined under our political system. Until comparatively recent years it represented the actual working

relations that existed between the legislative and the administrative services in most of our states and to a less extent in our national government. For the most part administrative services were looked upon by the legislature as their direct agents, to be directly instructed, supervised, and controlled. In some cases, indeed, the legislature has undertaken the direct exercise of administrative authority. For example, in the national government at the present time, Congress is directly controlling to a considerable extent public printing and the use of quarters by the administrative services through its Joint Committee on Printing and its Public Buildings Commission. Only in exceptional and unusual cases were the services placed under the administrative direction and control of the President and governors. The latter, from a legal standpoint, stood outside of both the legislative and administrative branches and exercised merely executive functions in the narrow political sense.

**Evils Resulting from the Failure to Vest Administrative Authority in the Chief Executive.**—This system, though never satisfactory, and, as will be seen, failing to correspond to correct principles in respect to the exercise of administrative authority, worked in a way so long as the activities of government were few and comparatively simple. As soon as these activities became numerous and involved work on a large scale the system broke down. The evils of this system have been excellently stated by Dr. W. F. Dodd, in his recent work on the government of the states. After calling attention to the fact that not only in popular estimation, but also by constitutional provision, the governor is the chief executive officer of the government, with the duty of seeing that the laws are duly enforced, he says:<sup>1</sup>

What situation does the new governor face when he comes into office? He finds that the constitution has given him a fairly large share in the work of legislation. He has probably been elected upon a platform of proposed executive and administrative adjustment. When he faces the executive side of his task, he finds about the following situation:

(1) There is a group of constitutional executive state officers, chosen ordinarily by popular vote, just as the governor has been, with some constitutional recognition of the governor's superiority over them, but with the political relationship between him and these other elective states

<sup>1</sup> W. F. Dodd, *State Government*, pp. 245-46. Century Political Science Series, New York, 1922.



officers such that the governor can actually exercise little supervision over them.

(2) He turns to the statutory organization of the state government and finds a large number of boards, offices and commissions, usually appointed by the governor (with the advice and consent of the Senate), but in many cases with terms so adjusted that he does control the appointment of individual officers or of a majority of the members of the board. Even if he does control appointments to the statutory boards, offices and commissions, he finds so many of these bodies, and such conflicting authorities, that the possibility of controlling them is slight, if only because of their very multiplicity.

(3) The governor has probably made the enforcement of certain laws a part of his platform. But when he comes to examine his powers with respect to this matter, he finds the enforcement of law throughout the state chiefly in the hands of locally elected officials over whom he has little control.

In this discouragement over any attempt to control the state administrative organization, the governor is likely to give up the administrative task as a hopeless one and to turn to the field in which he has greater power, that of legislation. What we have done is to set up a so-called chief state executive with more power over legislation than over executive matters.

Speaking of the same condition in the national government prior to the adoption of a budget system in 1921, the present writer has elsewhere said:<sup>2</sup>

It may seem incredible, but it is a fact, that at the present time, the National Government, notwithstanding the fact that it engages in activities of a variety, scope and importance not approached by any other corporation in the world, raises and expends billions of dollars annually, and is constantly compelled to levy assessments upon its stockholders and to appeal to them for the loan to it of money in huge sums, is now without any real business manager, without any proper system of accounts, without a balance sheet, and without anything approaching in character a systematic and carefully worked out financial and

<sup>2</sup> Spending Billions at Haphazard, Leslie's Weekly, August 2, 1919.

work program. The President is nominally the head of the administration. At no time, however, has he sought to perform the duties of that officer as understood in the business world. He does not even pass upon the requests of subordinate officers for funds and authorization to engage in certain lines of work. Such requests go direct to Congress through the Secretary of the Treasury as a compiling but nonrevising officer. He makes no annual report as administrator-in-chief. He does not lay before Congress any co-ordinated statement of the financial condition of the treasury, nor of the revenue and expenditure needs of the government for the future. He does not direct, and he controls only in rare cases where subordinate officials have quarrelled among themselves, and even then his only method of solution of the difficulty is the dismissal, of one or both of the officers concerned. Even were a President inclined to take his administrative responsibilities more seriously he would find himself hopelessly handicapped by his utter lack of any service, personnel or system of accounts and reports that alone would make it possible for him currently to discharge the duties of a general manager.

This system, under which the legislature seeks to control the details of administrative organization and action directly or through agencies directly responsible to it, instead of indirectly or through the chief executive as general manager, is radically wrong. In it we find at the outset of our attempt to determine the fundamental requirements of a proper administrative system, one of the basic defects of the administrative system of our government as they have existed in the past.

**Modern Movement to Confer Administrative Authority upon the Chief Executive.**—This being so, it is a matter of congratulation that in respect to both the national government and the government of the states, a pronounced movement is now at work having for its result, if not its deliberate end, the erection of the chief executive into a general manager, with all the duties and responsibilities of that office and the powers required in order that those duties and responsibilities may be properly met. This movement has taken three distinct, though closely related, forms: the passage of statutes conferring administrative powers upon the chief executive, by providing that he shall have authority to direct, supervise, and control the operations of administrative services and making the latter subordinate to him; the adoption of what is known as a budget system as the central and controlling feature of the system of financial administration of the government; and the reorganization of the administrative branch of the

government so as to make it correspond to what is known as the integrated or departmental type of organization.

Action of the first kind has been largely confined to the national government. Congress, finding it impossible to provide for the details of administrative organization and procedure of new services, has in many cases conferred upon the President the power and responsibility of determining the action to be taken. The policy was especially in evidence during the recent war. In almost all cases when it was necessary to provide for special agencies to handle problems growing out of our participation in the war, Congress contented itself with the enactment of certain substantive provisions of law and vested in the President the power to create and control such agencies as he saw fit to put those provisions into execution.<sup>3</sup>

What is meant by a budget system and the elements entering into it will receive detailed attention when we come to deal with that class of administrative problems having to do with finance. Here it is sufficient to say that a prime feature is that, under it, the affirmative responsibility is definitely placed upon the chief executive of annually or biennially coming before the legislature, as the board of directors of the government corporation, and submitting to it a report setting forth in detail the manner in which financial affairs of the government have been conducted in the past, the present condition of the public treasury, and the provision which, in his opinion should be made for meeting future revenue and expenditure needs. In giving to him this duty, it is evident that the chief executive has imposed upon him one of the prime responsibilities of a general manager. As will hereafter be seen, such a system, in fact, cannot work successfully unless the chief executive does discharge the functions of that office.

The movement to reorganize the administrative branches of the governments of the states so as to make them conform to a departmental type of organization looks no less definitely towards the erection of the chief executive into a general manager. To anticipate what will be more fully considered later on, this system means the grouping of the administrative services of the government into departments according to their general character and placing these departments under the general authority of the governor so that as has been pointed out, the lines of authority will run from the administrative services through the governor to the legislature.

<sup>3</sup> See W. F. Willoughby, *Government Organization in War Time and After; A Survey of the Federal Civil Agencies Created for the Prosecution of the War*. New York, 1919.

Very substantial progress has been made in recent years in this direction. The subject is one that will be more fully considered when the problem of organization as distinguished from general administration is treated.

To recapitulate, it will thus be seen that, in respect to both our national government and the government of our states, there is a strong tendency definitely to recognize the office and functions of a general manager. In our municipalities the same tendency is apparent and finds its fullest expression in the creation of what is known as the city manager type of government. This tendency, as has been stated, is one wholly to be welcomed. It represents but the adoption by our governments of a principle and practice that is universally found in all well-organized private undertakings of a corporate character.

Unfortunately, this trend is by no means universal. Not a few of the states in providing for the adoption of a budget system and the reorganization of their administrative system, have not only failed to emphasize the position of the governor as general manager but they have taken action having the contrary effect. Thus, as Dr. Dodd points out in the work from which we have quoted, Wisconsin, which was one of the first states to effect a reorganization of its administrative system, in 1911 started the policy of setting up administrative boards and commissions, with the term of their members overlapping in such a way as to place the power of controlling their composition beyond that of any one governor and of strengthening their independence of the governor by providing for their support through continuing appropriations. New York and Michigan in 1921 provided for the vesting of direct control over administrative services in one *ex officio* board rather than in the hands of the governor, though the latter is made a member and chairman of the board. New Jersey has probably gone further than any other state in this direction by creating a series of administrative commissions substantially independent of any one governor. Regarding the action by these states Dr. Dodd writes:<sup>4</sup>

The states just discussed proceed largely upon the assumption that the governor is a person to be distrusted and that a large amount of administrative authority in the state should be vested in a board of which the governor is but one member.

He points out, however, that the superior position of the governor gives him a great moral influence, and, if he is a strong type, he can be very influential, notwithstanding his lack of legal powers,

In the national government, on the other hand, all the action that has been taken has been directly towards the erection of the Presidency into the office of administrator in chief of the government. Thus, General Lord, the present Director of the Bureau of the Budget, was in a position to state in his address at the second annual meeting of the President and the chief administrative officers of the government, as follows:<sup>5</sup>

In summarizing, as I have done, the conditions which existed prior to the commencement of operation under the Budget and Accounting Act my sole intent has been to make plain the revolution that has taken place in the business of the government since the enactment of this resolution. A little more than a year ago a new era was inaugurated; the President for the first time in the history of this country took his logical place as the head of the business organization of the government and assumed all of the great responsibility devolving upon this direct leadership.

**Action Required to Erect the Office of Chief Executive into that of General Manager.** Having stated the problem and viewed briefly existing conditions and tendencies, it remains to state more definitely the action that must be taken by a government if this principle of administrative organization is to be put fully into effect.

**Line of Administrative Authority to Run through the Chief Executive to the Legislature.** If the chief executive is really to be given the powers, duties, and responsibilities of a general manager, a first requirement is that the law providing for the organization and administration of the administrative branch of the government shall clearly provide that the line of administrative authority shall run from the several operating services through the departments to which they belong, if a departmental system of organization is employed, to the chief executive, and from the latter to the legislature, instead of directly from the operating services or departments to the legislature, as is now usually the case in both our national and state governments. The principle, in other words, should be definitely adopted of making purely administrative officers the subordinates of, and subject to, the superior authority of the chief executive.<sup>6</sup> This does not mean that the

<sup>5</sup>Address of the President of the United States and the Director of the Bureau of the Budget at the Second Annual Meeting of the Business Organization of Government, July 11, 1922, p. 8.

<sup>6</sup>It will be noted that care has been taken to make this requirement apply only to purely administrative officers. There are certain officers usually deemed to belong to the administrative branch whose functions

chief executive shall have plenary powers to give orders to, or to substitute his judgment for that of, such officers in respect to the performance of their several duties, but rather that they shall be accountable to him for the manner in which they perform the duties conferred upon them by law and that he shall have all the powers necessary to enforce such accountability. Especially should he have full authority to make such investigations into the organization, activities, and methods of business of the several administrative services, to have access to their books and records, and to require of them such information regarding the manner in which they are conducting their affairs as in his opinion are necessary in order that he may assure himself that such affairs are being honestly conducted and with a maximum of efficiency and economy. The primary responsibility of the chief executive to the legislature as general manager is that of seeing that the administrative affairs of the government are being honestly, efficiently, and economically run. Unless therefore, he has this authority, neither can he meet this responsibility nor can the legislature consistently hold him to it.

**Heads of Administrative Services to be Appointed and Removable by the Chief Executive.** With the principle once adopted of holding the chief executive responsible, as general manager, for the manner in which the heads of the several administrative services perform their duties, it follows logically that he should have the selection of such officers and the power to remove them if, in his opinion, such action is in the interest of good administration. It is hardly necessary to say that the adoption of this method of selection will necessitate a radical change in existing methods of selecting administrative officers. At the present time the power of the chief executive to determine who shall be at the head of administrative services is limited in at least three important ways. In the first place, in all but a comparatively few of the states, a considerable number if not the majority of the chief administrative officers hold office by election by the people. Secondly, where the appointment of such officers is vested in the chief executive, this power of selection can only be exercised in conjunction with the upper house of the legislature. Finally, in the case of many of the states at least, the chief executive can only remove officers appointed by him, by and with the advice and consent of the upper house of the legislature, upon the concurrence of that body being obtained.

are political, quasi-judicial, quasi-legislative, or of a control character rather than administrative, strictly speaking. Reference is made to such offices as members of public utilities commissions, and the comptroller or auditor. Due to the nature of their duties, they should not be subject to the authority of the chief executive in the same way as the heads of the administrative services strictly speaking.

It is not our purpose in the present place to enter into any extended discussion of the arguments that can be urged in favour of, or against, these limitations upon the power of the chief executive to select and remove his administrative subordinates. All that it is desired to do is to bring out the fact that these limitations, do violence to the fundamental principle of imposing upon the chief executive the powers, duties, and obligations of a general manager; and, furthermore, that in their actual operation they not only produce political evils of a serious character, but also undoubtedly militate against an efficient and economical administration of public affairs. Whatever may have been the motive for the adoption of these provisions in respect to the selection and removal of administrative officers in the past, it is submitted that the necessity for them no longer exists. In the early days there was a real apprehension that the executive might make illegitimate use of the powers of his office, and to meet this apprehended danger, so-called checks or balances were introduced into our political system. Practically all students of our political institutions are now agreed that if this danger exists at all, it is to be met by other means than those which tend to diffuse responsibility and make difficult the harmonious co-operation of the several branches into which the government is divided. This position is further strengthened by the fact that other and more effective means of control over the executive have been developed in recent years, especially through improved accounting and reporting methods and the making of provisions for the examination and audit of all administrative expenditures by a comptroller or auditor who is independent of the executive and reports directly to the legislature.

It will not escape notice that the position here taken that the heads of all purely administrative services should hold office by appointment by the chief executive and be subject to removal by him, constitutes the essential feature of the so-called "short ballot movement," which has made substantial progress during recent years. Furthermore, it should be stated that practically all inquiries that have been made into the practical workings of the system of requiring the consent and approval of the upper house of the legislature to the appointment of administrative officers condemn this system.<sup>7</sup> It is indeed, difficult to bring forward any arguments in its support.

**Chief Executive to Exercise General Control over Institutional Activities of the Administrative Services.** Another duty pertaining to the chief executive as general manager,

<sup>7</sup>See specially the Report on "Methods of Appointment" in Message of the President Transmitting Reports of the Commission on Economy and Efficiency, April 4, 1912. 62 Cong., H. doc, 670.

is that of prescribing, or controlling, the manner in which the several operating services perform certain, or all, of their duties. As will elsewhere be pointed out more fully, analysis of the duties or working activities of an administrative service shows that they fall into clearly distinguishable classes; those which the service has to perform in order that it may exist and operate as an organization or institution, and those that it must perform in order to accomplish the ends for which it has been established and is being maintained. These two classes of activities may be designated as institutional and functional. The institutional activities embrace such work as maintenance, care, and operation of plant, the recruitment and management of personnel, the purchase, custody, and distribution of supplies, the receipt, custody, and disbursement of moneys, the keeping of accounts and the preparation and rendition of reports, the handling of correspondence and files, and other like matters. The functional activities consist of the performance of the special or technical duties involved in carrying on the work for the performance of which the service is maintained.

This distinction between the two classes of work to be performed by a service is, as will be hereinafter shown, of fundamental importance in determining many matters of practical administration. It is only mentioned here due to its direct bearing upon the duties of a general manager.

The two classes of activities differ not only in respect to the purposes for which they are performed, but also in their fundamental character. Functional activities are special and technical, and are different for each kind of service. Institutional activities, on the other hand, are similar if not identical in character for all services. It is highly important, therefore, that as far as is practicable they should be performed in the same manner. To state this in another way, it is desirable that the methods of performing these activities should be made uniform or standardized throughout the government services as far as circumstances will permit. This is desirable not only in the interest of economy and efficiency but also in order that the operations of the services may be compared one with another, and consolidated showings of operations be made. Especially is it important that there should be uniform methods of accounting and reporting.

In order that uniformity may be secured and most efficient methods employed, it is necessary that the power to prescribe and subsequently to enforce the manner in which these duties shall be performed shall be vested in some agency exercising general jurisdiction over all the services. The only agency having such general jurisdiction is the head of the administration. If this important



phase of public administration is to be properly handled, it becomes the duty of the chief executive, in his capacity as general manager, to take the action required in order to ensure that this class of activities is being properly performed. In doing so he has to consider whether the end sought can best be secured by prescribing the methods to be followed by the several services or by bringing into existence central agencies, such as a central purchasing agency, a central accounting office, etc., to act for all the services. This, however, is a matter that will be more fully handled in another place.

**Administrative Reports to be Submitted by or through the Chief Executive.** Another feature that is desirable, if the policy of general managership of the chief executive is to be fully carried out, is that all communications between the legislative and administrative branch shall pass through the hands of the chief executive. This means in the first place that all requests by the legislature for special information regarding administrative affairs shall normally be addressed to the chief executive and the information itself shall be secured and submitted by him. Secondly, it means that the law should provide that the annual or biennial administrative reports required of administrative officers should be submitted to the chief executive and by him transmitted to the legislature as supporting documents to the annual or biennial administrative report, which he himself should be required to submit to the legislature upon its convening in regular session. The desirability of this provision is obvious. It is a prime obligation of a general manager to lay before his board of directors at regular intervals a full and detailed statement of how affairs have been administered in the past by him and his subordinates and of present conditions and needs. If he is to do this properly he must himself secure the detailed data needed by him from his subordinates. To do this he must have adequate power to determine the character of information that shall be furnished and the manner of its presentation. It is further desirable that the several reports shall have a direct relation to the chief executive's report and that an opportunity shall be afforded to the chief executive to comment upon their contents and to make known the extent to which he agrees with and supports the statements and recommendations therein made. The reporting system here advocated is that which obtains in all well-organized and administered private corporations. The point at issue may not seem to be of great importance. Failure to provide for it, however, will tend to obscure the relationship that should exist between the chief executive and the legislature on the one hand and between the several administrative officers and the chief executive

on the other, and to introduce confusion in the practical administration of affairs.

**The Budget to be Prepared and Submitted by the Chief Executive.** Finally and in some respects most important of all, the law should provide that all recommendations for the raising of revenue and the granting of funds for the support of the government should emanate from the chief executive. As general manager it should be his duty to make full report not only regarding past operations and present conditions but also a statement as to the provision which, in his opinion, should be made for meeting the revenue and expenditure needs of the government in the future. This recommendation should go forward in the form of a document known as a budget, the purpose of which should be to get before the legislature at one and the same time a complete financial and work program in order that that body may determine the relative importance of the several proposals, and their relation to each other and the bearing of these proposals as a whole upon the general condition of the treasury. The greatest criticism that can be made of the workings of our governments in the past, is that they have attempted to function without any definite program. So long as administrative officers were allowed to appeal directly to the legislature for authorization to engage in activities and for the grant of funds, the formulation of such an administrative program was impossible. One of the greatest advantages sought in erecting the office of the chief executive into that of a general manager is to correct this condition of affairs.

This is a subject which will be more fully handled when we come to consider that branch of administration having to do with the management of the financial affairs of the government. It has been necessary, however, to make mention of it here, since it constitutes so essential a feature of the program of making the chief executive a real business manager of the government corporation.

**Legal Status of the Chief Executive as General Manager.** Before leaving this subject a few words should be said regarding the legal status of chief executives as officers exercising administrative powers. As chief executive the President and the governors of the states are co-ordinate in status and authority with the Congress and the state legislatures. As such they are independent of those bodies. They draw their authority directly from the people and are responsible only to the latter. As regards their executive duties, they are in no sense either subordinate or responsible to the legislature. This results from the principle of the

separation of powers, which is one of the prime characteristics of our political system.

As general manager the chief executive, however, will have quite a different status. In this capacity he will be strictly a subordinate of the legislature, the agent through which the latter exercises the powers of general administration. He will have only those powers and duties which are expressly conferred upon him by the legislature, and is under the obligation to account to that body for the manner in which he discharges these delegated powers and duties. As a general manager he will, in a word, occupy precisely the position of a general manager in a business corporation and be subject to the direction, supervision, and control of the legislature in the same way that the general manager of a private corporation is subject to the superior authority of the board of directors.

In making this statement it is recognized that there is present in private undertakings an important element of subordination and control that is lacking in our political systems ; namely, the power of the policy-determining and order-giving body, the board of directors, to appoint and, if desired, to dismiss the general manager, and to give him orders of a mandatory character. This power is lacking in our political systems. Not only is the chief executive selected and his tenure of office determined independently of the legislature, but it is pretty well established, in the case of our national government at least, and probably in the case of most of the states, that the chief executive can, if he desires, refuse to accept duties and responsibilities which are not expressly conferred upon him by the constitution. The Congress and the legislatures are, thus, in a position where it is impossible for them to give orders to the chief executive in respect to administrative affairs that are of a mandatory character or enforce responsibility even when duties of this character are accepted by the chief executive. It is in consequence of this condition that statutes enacted by Congress having for their purpose to impose administrative duties upon the President are not, except as a matter of oversight, so worded as to direct the performance of such duties; the language usually employed is that the President is " hereby requested," or " authorized " to do things covered by the statute.

At first sight it might seem that this situation, resulting from our doctrine of the separation of powers, would render it impossible effectually to establish the system under which the chief executive will be a real business manager and perform his duties as such in proper subordination to the legislature. - In point of fact little difficulty on this account is encountered. This is due to a number of

facts. In the first place no officers of government are more convinced than are the President and the governors of the states of the correctness of the principle that they should be made the real heads of the administration. They are only too willing to accept the administrative duties and responsibilities that are imposed upon them in putting this principle into application. They, furthermore, recognize that it is their duty loyally to put into effect legislative determinations, even though technically they might refuse to do so. Their duty to see that the laws are properly enforced, is deemed to apply to their own duties as well as those of other officers. They also appreciate that, in performing these administrative duties, they are acting as agents of the legislature and ought to render to that body a due accounting of the manner in which they perform their duties. Practically, therefore, nothing stands in the way of the progressive development of this system, except the single fact that the legislatures do not themselves determine who shall act for them as general managers and do not have the power to dismiss such managers if they prove unsatisfactory. This, however, affects the personnel phase of the problem rather than the system itself.<sup>8</sup>

<sup>8</sup>The government offering the closest approximation to the board of directors-general manager system of private corporations is probably that of Switzerland. Under that government not only is all administrative authority vested, as in the United States, in the legislature, but the latter body selects the chief executive and, either directly or indirectly, all other administrative officers. The chief executive and other administrative officers, in so far as their administrative duties are concerned, are thus the direct agents of the legislature, and are subject to its orders and control in the same way as are the general manager and other administrative officers of a private corporation to the board of directors. Moreover, the whole subject of administration is deemed to be non-political in character. There is no thought of changing administrative officials when a change of parties in power takes place in the legislature. Nor do the heads of departments change when their proposals are not accepted by the legislature. The actual working relation between the legislature and its administrative agents are almost identical with those obtaining in a private corporation. The legislature frequently requests such agents to prepare measures to accomplish a certain end decided upon, and to come before it for the purpose of explaining such proposals. After a final decision is made the administrative officials put them into effect, regardless of whether they conform to their opinion as to what is wise or best. This feature of the Swiss constitutional system, under which matters of administration are taken out of the domain of politics and put upon a purely business basis, and administrative officers derive their powers directly from the legislature and constitute but agents through which the latter secures the putting into effects of its administrative determinations, constitutes probably the most characteristic feature of the Swiss system of government. It represents a system of administration towards which American practice is tending, notwithstanding the obstacles that stand in the way in the form of our doctrine of separation of powers.

**General Summary.** The foregoing has served a double purpose ; that of indicating in outline at least the general character of the powers that should be conferred upon a chief executive and the duties that should be performed by him if he is effectively to function as head of the administration ; and that of the advantages that attach to the adoption of the policy of giving to him the powers and duties of this office. Fundamentally these advantages consist in making of the administrative branch, both as regards its organization and its practical operations, a single, integrated piece of administrative machinery, one in which its several parts, instead of being disjointed, and unrelated will be brought into adjustment with each other and together make a harmonious whole ; one that possesses the capacity of formulating a general program and of subsequently seeing that such program as is formulated is properly carried out ; one in which means are provided by which duplication of organization, plant, personnel, or operations may be eliminated, conflicts of jurisdiction avoided or promptly settled, and standardization of methods of procedure secured ; and finally ; one in which responsibility is definitely located and means for enforcing this responsibility provided.

## CHAPTER IV

### THE BUREAU OF GENERAL ADMINISTRATION

**Need for a Bureau of General Administration.** It must be evident from the foregoing sketch of the duties and responsibilities attaching to the office of general manager, that, if the chief executive is really to perform the duties of that office, if, in other words, he is to be other than nominally the head of the administration, means must be provided by which he can in fact meet these responsibilities.

First, he must have means by which he can keep himself fully informed regarding the character of the organization of which he is the head, its duties and activities, the manner in which they are distributed among the several organization units, and the methods of operation employed. This, as will later be pointed out can best be supplied by the preparation of charts or outlines of organization, descriptions of the history, activities, and organization, of the several services making up the administrative branch, manuals of procedure, etc. If these are prepared according to a systematic plan and properly assembled they will furnish a handbook that will be of great value not only to the chief executive but to all other officers of the government and the general public as well<sup>1</sup>.

Secondly, means must be at hand by which the chief executive can currently keep in touch with operations of these services, determine when and how he ought to intervene in order to straighten out jurisdictional or other disputes between services, and generally do those things which will ensure a harmonious working of the several parts of the administrative machine. Information of this kind is to be secured only by the organization of a system of records and accounts and the requirement of such periodical reports

<sup>1</sup>One of the first tasks undertaken by the Institute for Government Research was the supplying of the national government with information of this character through its series of "Service Monographs of the United States Government." Due to the vast scale upon which the operations of this government are carried on, the great variety of its activities, and the complexity of the administrative machinery employed, it is especially desirable that this work of making known the facts regarding the organization and work of the administrative branch should be undertaken. When this series is completed it will furnish information regarding the organization and activities of the national government of a character that does not exist for any other government of importance.

administrative affairs are being conducted and obligations are being met. In addition he must have the means by which he can make such special investigations or inquiries into the organization and operations of particular services as circumstances may require.

Finally, means must be provided by which he can give intelligent consideration to all requests emanating from the several working services for authorizations to engage in new or enlarged activities, or for the grant of funds for future operations, so that he can formulate his annual or biennial budget or financial and work program for submission to the legislature. If this document is to be properly prepared, it is essential that he shall prescribe the form in which the requests for authorization to engage in work and for the grant of funds shall be prepared and the character of supporting data that shall accompany them. This is necessary in order that the scheme of presentation of the budgetary data may conform to some logical and consistent principle and the several items be susceptible of being brought together in significant sub-totals and totals and comparisons between services be made. These estimates, when received, must be subjected to critical examinations for the purpose of determining, not only their reasonableness, individually considered, but also their relative merits and the extent to which their approval is warranted by the general condition of the government's finances. Thereafter, they must be compiled, analyzed, and otherwise put into shape for presentation to the legislature.

Manifestly, it is impossible for a chief executive, even did he have no other duties of a general and political character, personally and unaided to keep in touch with administrative conditions and operations; to do this work of prescribing the character of records and accounts that shall be kept, the reports that shall be rendered and the form in which estimates shall be submitted; to receive, compile, and critically examine the data so furnished; and to formulate the documents through which his determinations are to be expressed. If the requirements of the situation are to be met, it is imperative, therefore, that the chief executive shall be provided with technical assistance that will enable him to do this work. This assistance should take the form of the creation of a special service, to be known as, or at least having the functions of, a bureau of general administration:

**Legal Status of Bureau of General Administration.** Representing as it does the agency through which the chief executive is to perform his duties as general manager, it would seem to be evident that this bureau of general administration should be independent of all other administrative agencies and attached directly to the office of chief executive. It would hardly be necessary to

emphasize this point but for the fact that it is one which has been largely disregarded in efforts that have been made to create such an agency in the United States. As will later be pointed out the question as to whether the Bureau of the Budget, which was to serve as a bureau of general administration for the President of the United States should be directly attached to the Office of the President or made a subordinate bureau of the Department of the Treasury, constituted the main point of issue between the Senate and the House of Representatives in the framing of the act that gave to the national government a budget system. This issue was resolved by placing the bureau nominally under the Treasury Department, but making it in fact a direct agency of the President. It is none the less unfortunate that its legal status does not conform to its actual working relationship to the latter.<sup>2</sup>

In those states which have within recent years taken action looking to the reorganization of their administrative branch, the adoption of a budget system, and the conferring upon the governor of the duties of a general manager, the policy most generally adopted has been that of making one of the administrative departments, the department of finance, the organ of general administration. Though, in the opinion of the writer, it would have been better to have followed the example of the national government and have given to the chief executive an agency that was in effect independent of the other administrative services, this system can give excellent results, provided that, as in the case of the British Treasury, it is made perfectly clear that, the department of finance has a status quite different from the other administrative services; that it is the executing agency of the chief executive and subject to his direction and control. Otherwise, there is a division of responsibility between the chief executive and the head of the department of finance that is not only undesirable, but also has the disadvantage of lessening the emphasis upon the principle of looking to the chief executive as the officer having general responsibility for the control of the conduct of administrative affairs.

In the cities the tendency has been to erect the office of comptroller into an organ of general administrative control. This is especially true in the larger cities and notably in New York and Philadelphia. This scheme of organization does violence to the

<sup>2</sup> For a fuller statement of the reasons for making the Bureau of the Budget independent of the Treasury Department, see Part IV "Problems of Finance," p. 427 and the writer's recent work *The National Budget System, with Suggestions for Its Improvement*, Institute for Government Research Studies in Administration 1927.



principle here contended for, since the comptroller is "completely independent of the mayor, being elected directly by the voters. His office is, thus, in no sense an agency of the chief executive, but rather an agency of the legislative branch or the people for the exercise of control over the administration as a whole, including the mayor himself. As will later appear, it is highly desirable that the legislature shall have an agency of control such as is possessed by the national government in its office of Comptroller General of the United States, but the chief executive should have an agency of general administration independent of this office. One of the most difficult problems of administration is that of the determination of the respective powers and duties of these two agencies and the relations that they should have to each other. This is a matter that will receive full attention when consideration is given to the special problem of financial administration.

**Powers of Bureau of General Administration.**—It might seem at first sight that the problem of determining the powers and duties of a bureau of general administration would be a comparatively simple one. Examination, however, shows that this is not the case. If the service is to work smoothly, it is necessary that certain things should be done. In the first place it should be made perfectly clear that the bureau as such should be given no powers of its own. All grant of powers in respect to the control of administrative services should be made to the chief executive. The bureau should be merely the executing agency of the chief executive, the organ through which the latter exercises the powers. Everything that it does should, therefore, be done in pursuance of orders or of authorizations given to it by the chief executive.

Emphasis is laid upon this requirement, since, at the time that the proposal for the creation of a budget system for the national government was under consideration in Congress, fear was expressed that the proposal for the creation of a bureau of the budget that would perform the duties of bureau of general administration and furnish an agency through which the President might discharge his budgetary duties, would result in the creation of a supercabinet officer; something which all were agreed should not be done. This danger would have been a real one had the proposition been one of conferring general supervisory or order-giving powers directly upon the bureau. It was avoided, however, by giving consideration to the principles that have been expressed and of vesting all general overhead authority in the President and making the bureau but the latter's executing agency.

Secondly, it should be made equally clear that the bureau of general administration should not be an operating service, using

that term in the special sense of having responsibility for the performance of tasks of an operating character. Its functions should be solely those of keeping in touch with the operating services, of securing the information needed by the chief executive in order to ensure that such services are properly conducting their affairs, and of formulating and enforcing on behalf of the chief executive general rules and regulations requiring uniform or standard methods of procedure in so far as such uniformity of procedure is desirable.

The foregoing represents what may be termed the primary functions of a bureau of general administration. It is quite possible, however, to make use of this agency for the performance of functions of control that are of a more affirmative character. In our consideration of the duties of the chief executive as general manager, the distinction has been made between the activities which operating services have to perform in order that they may exist and operate as organizations or institutions, to which the term institutional is given, and those that they must perform in order to accomplish the ends for which they have been established and are being maintained, which were designated as functional. It was, thus, pointed out that the problem of overhead control in respect to the performance of institutional activities was quite a different one from that of control of functional activities. There has been a strong movement in recent years to vest in some central agency the control, if not the actual execution, of the more important activities of the first class. This has found expression in the establishment of central accounting offices, central purchasing agencies and the like. There has also been development in the way of strengthening the direct control by the chief executive over the contracting of liabilities, the engaging in new activities by operating services, and other phases of administration. To the extent to which this policy is adopted it would seem logical that the actual exercise of this control or performance of institutional activities should be entrusted to the bureau of general administration or to special agencies that should be subordinate divisions of that bureau. The writer has, thus, recommended that in the case of the national government, the control now exercised by the Public Buildings Commission over the allotment of quarters to the administrative services and by the Joint Committee on Printing over publications to be issued by the services be transferred to the Bureau of the Budget and that the General Supply Committee, now a subordinate service of the Treasury Department, be made a subordinate service of that bureau.<sup>3</sup> The adoption of this principle would seem

<sup>3</sup>See The National Budget System.

to carry with it the desirability of making the central personnel agency, the Civil Service Commission, likewise a subordinate agency of the bureau of general administration. There are, however, special reasons in this case which make it advisable that this should not be done. These reasons will be fully set forth when we come to consider the special problems of personnel administration.

No attempt is here made to consider the problem of the extent to which it is desirable that central control in respect to the matters that have been mentioned should be set up. This problem is one that can best be considered in connection with the consideration of these particular questions.

This problem of organization for the performance of the function of overhead administration and control, is such an important one that it is of value to indicate how at least some of the more important governments have met it. This statement of actual practice will bring out more clearly the nature of the problem and the considerations to be borne in mind in seeking to solve it.

**The British Treasury as an Organ of General Administration.** Undoubtedly the best example that exists of a bureau of general administration having the statutes, powers, and duties that such a service should have is that of the British treasury. That department, notwithstanding its name, is a real bureau of general administration in the fullest acceptance of the term. It has a status distinct from, and, as regards matters of general administration, superior to, the so-called spending services. With but one exception, which is recognized by the British themselves as an undesirable feature, it has no operating duties, strictly speaking. Apart from this exception, its sole function is that of acting as an agency of general direction, supervision, and control over those services which have operating duties. In view of the fact that this department constitutes by far the most striking and successful example of a bureau of general administration, such as it is urged should be established by each of our governments, we are fully justified in reproducing below the greater part of the general summary which the author gave of the organization and work of this department in a report which he made as chairman of a commission to investigate and report upon the system of financial administration of Great Britain.<sup>4</sup> After giving in some detail the powers, duties, organization, and practical operations of this department he said:

The commission entered upon its study of the financial system of Great Britain with a fair appreciation of the fact

<sup>4</sup>The System of Financial Administration of Great Britain, by W. F. Willoughby, W. W. Willoughby, and S. M. Lindsay. Institute of Government Research Studies in Administration, 1917.

that to the Treasury Department was given large powers of control in respect to the formation of the estimates that were to be submitted to Parliament. Only as it prosecuted its inquiries into the details of the manner in which the Treasury exercised its powers did it come to a realization that, important as is this power of the Treasury in respect to estimates, it constituted but one feature, one manifestation, as it were, of the far broader power that the Treasury has to supervise and control, not only all matters relating to the financial operations of the government but practically all matters of acquiring funds and property and all matters of incurring obligations—which may be called the business functions as distinguished from the public service activities of the government. More and more as its investigation proceeded, the commission had borne in upon it the fact that in the Treasury the British Government had a great organ of general administrative control; that upon it fell the duty and responsibility for the final determination of what form of organization the several departments of the government should have, what personnel was needed, what compensation should be paid, what new undertakings should be authorized, what changes should be made in the employment of funds as provisionally allotted by Parliament, what new grants Parliament should be asked to make, what the works program of the government should be, etc.; that in discharging this function it was its duty to keep itself thoroughly informed regarding the condition and needs of the several services and use its utmost endeavour to see that the government operations were conducted with the maximum of efficiency and economy; that, in a word, the Treasury was the one authority to which Parliament and the public looked to see that public affairs were administered in an economical and efficient manner. The investigation also brought out another fact which the commission is sure has never been adequately appreciated by foreign students, namely, that these broad powers of the Treasury, instead of being exerted once a year when the estimates are brought under consideration, are exerted from day to day throughout the year.

Still more important, the fact was developed that, not only had the Treasury this important duty of acting as a general organ of administrative control, but this duty constitutes practically its exclusive function. It is difficult to overestimate the importance of this fact. Until it is appreciated one totally misconceives the place of the Treasury in the British administrative system. Misled by its name, the com-

mission began its inquiries under the impression that the British Treasury corresponded to the Treasury Department of the United States Government, that to it was entrusted, as its primary duty, the management of the national finances, the collection, custody and disbursement of the public revenues, and that its powers in respect to the framing of the estimates were, so to speak, incidental to this duty. Nothing is further from the fact. It cannot be stated too emphatically that the British Treasury is, properly speaking, not a public service department at all. It has no public service duties of its own. Its functions are entirely auxiliary and controlling—restricted to looking after the financial and physical measures and to the supervision and control of other departments. It thus stands in a class by itself as a service superior to, and in no sense co-ordinate with, the departments, which render services direct to the public, properly speaking. In fact it does not deal with the public; it does not collect the public revenues—this is done by the so-called “revenue departments”; it does not have the custody of the public funds; it has to secure “credits” before it has any control over such funds; it does not audit public expenditures—that is done by the Comptroller and Auditor General; it does not administer the public debt—that is performed by a separate organ, the National Debt Commissioners. It is true that these several services are often spoken of and in a way treated as subordinate services of the Treasury, but their subordination is practically the same as that of departments which perform public services.

Once we grasp the fundamental status of the British Treasury and the principle upon which its powers rest, all difficulty in the way of understanding why the British system works so smoothly disappears. The important fact that the United States has to learn from this is that if it has any desire or intention to build up in the government a system of financial control analogous to that possessed by England it must be prepared radically to reorganize its Treasury Department as it now exists or to bring into existence an entirely new organ to perform this function.

From the foregoing account of the British Treasury it will be seen that the British government has carried the principle of vesting control over the spending departments in a central organ of general administration much further than is absolutely essential in order that a chief executive may effectively perform the duties of a general manager. Not only does this service have the power and duty of securing full information regarding how the spending

departments are organized, their activities, methods of business, needs, etc., of prescribing in the interest of uniformity, the general rules of procedure that shall obtain in respect to the purely business or institutional activities of such departments and of passing upon their requests for the grant of funds and authorization to engage in new or enlarged activities, but it also currently controls them in respect to the employment of new personnel, the payment of increased compensation to their employees, the transfer of appropriations from one head to another, and in many other ways.

### **Bureaus of General Administration in the United States.**

Demonstrable as must be the necessity for an organ of this kind, it is only within comparatively recent years that any efforts in this direction have been made by either our national or our state governments. How slight was the appreciation of the need for such a service and of the value of the work that might be done by it, is evidenced by the fact that, until the passage of the recent budget act the President was without any means by which he could effectively meet his duties as head of the administration. His office was not even an office of record. Each President, when he left office, took with him all of the papers that had accumulated in his office during his administration. The new President entered an office with blank walls and empty file cases. He had at hand no data showing the organization of the government which he was supposed to direct, its powers, duties, or methods. No provision existed for the receipt of information showing current conditions and operations. He had no subordinate whose duty it was to secure such information, or to keep in touch with the operations and needs of the several services. He was, thus, wholly without either the information or the assistance absolutely essential if he were to attempt anything in the way of exercising current control and supervision over the administration of public affairs. Practically the same condition of affairs existed in most, if not all, of the states. No more emphatic demonstration exists of the fact that the chief executives of our governments were not looked upon as officers having the duties of a general manager, or expected to exercise any really effective direction and control over the conduct of the affairs of the administrative services, than is afforded by this general failure to provide such officers with any adequate machinery through which they might discharge such duties.

The first appreciation of the need for an organ of general administration, such as has been described, arose in connection with the movement for the adoption of a budget system by the several states and by the national government. It was seen by a number of these governments that if the chief executive were to be given the duty of formulating and submitting a budget, means must be provided by which he could examine the requests for funds as they originated

in the spending departments and could make such inquiries into the organization, activities, and methods of business of such departments as would enable him intelligently to determine their needs and the money that would be required to meet such needs. Parallel with this movement for budgetary reform, and often intimately associated with it, has been another movement having for its purpose to improve the whole system of administrative organization of the states and embracing, as one of its most essential features, the strengthening of the administrative powers of the chief executive. As a result of these two movements there have been created by the national government and various of the states, organs of general administration which now play a dominant part in determining how administrative affairs shall be carried on. It is, of course, not practicable to describe all of these agencies. In the paragraphs that follow brief accounts will, however, be given of the more important ones. These will serve to make known the different directions taken in setting up agencies of this character in the United States.

**Bureau of the Budget of the National Government.** Of bureaus of general administration, much the most important is the Bureau of the Budget of the national government.

The act of June 10, 1921, providing for the adoption of a national budget system, after vesting directly in the hands of the President the duty of formulating and submitting to Congress each year a budget that shall constitute the complete financial and work program which in his opinion should be adopted for the ensuing year provides for the creation of a service, to be known as the Bureau of the Budget, through which he may discharge the duties thus imposed upon him. This bureau, though nominally a subordinate service of the Treasury Department, functions, as has been pointed out, precisely as though it were an independent agency directly attached to the office of the President. It has at its head a Director and an Assistant Director, both appointed by the President, without the usual requirement that the appointment shall have the approval of the Senate, and both holding office at the pleasure of the President. The bureau as now organized embraces thirty-eight officers and employees and has the expenditure of \$ 190,000. In addition it makes use of the services of a large number of other employees, mostly army and navy officers, who are detailed for service with the bureau.

Though the primary duty of this bureau is the preparation of the budget for the President, it has, partly as the result of express provisions of law, and partly through action taken by the President in the exercise of his general powers, most of the duties and responsibilities of a bureau of general administration as set forth above. The Budget and Accounting Act expressly provides that:

The Bureau, when directed by the President, shall make a detailed study of the departments and establishments for the purpose of enabling the President to determine what changes (with a view of securing greater economy and efficiency in the conduct of the public service) should be made in (1) the existing organization, activities and methods of business of such departments or establishments, (2) the appropriations therefor, (3) the assignment of particular activities to particular services, or (4) the regrouping of services.

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Under such regulations as the President may prescribe, (1) every department and establishment shall furnish to the Bureau such information as the Bureau may from time to time require, and (2) the director and Assistant Director or any employee of the Bureau when duly authorized shall, for the purpose of securing such information, have access to, and the right to examine any books, documents, papers or records of any such department or establishment.

It can thus be seen that in his Bureau of the Budget the President has a special organ through which he can secure full information regarding the organization, activities, methods of procedure, and needs of the several services, keep in current touch with all their operations, and do those things which a general manager ought to do in order to assure himself that their affairs are being properly conducted.

Though no express grant of power was made by the act to the President to control the expenditure of funds granted or to prescribe methods of procedure by the operating services in the performance of their duties, the President has, in fact, from the beginning made use of this bureau as an agency of general administrative control. He has caused to be set up under its direction a large number of boards having for their function to work out standard forms of contracting, standard specifications to be employed in making government purchases, and uniform rules of procedure for the conduct of practically all of the institutional activities of the spending services. The use of these documents and procedure have been prescribed by executive orders or regulations issued by the Bureau of the Budget under the direction and approval of the President. Operating through the bureau, the President has required all the spending services to set aside a part of their appropriations as a reserve fund to be drawn upon only to meet emergencies, has directed that no service shall engage in a new activity, whether authorized by law or not, until the matter



has been passed upon by the Bureau of the budget and in various other ways has brought the whole conduct of administrative affairs under his general direction and control. The character of the work thus done will be more fully considered in part III, dealing with the problem of financial administration.<sup>5</sup>

**Department of Finance: Illinois.** In the Department of Finance of Illinois we have the leading example of the vesting of powers of general administration in one of the executive departments that of finance; instead of creating for this purpose a special agency directly attached to the office of the Governor. Illinois was one of the first of the states radically to reorganise its administrative system through the grouping of the greater number of its administrative services in departments, and the conferring upon the Governor of many of the duties of a general manager according to the national government plan. This was accomplished through the passage of the act in relation to the Civil Administration of the State Government, March 7, 1917. Among the departments thus provided for was the Department of Finance, the head of which like those of the other departments, is appointed by the Governor with the approval of the Senate and holds office for four years. Following the analogy of the British Treasury, this department was made the agency for formulating, on behalf of the Governor, the biennial budget, and otherwise to act as an organ of general administration. The scope of its powers may be seen from the following enumeration of its duties as contained in the act above cited.

The department of finance shall have power:

1. To prescribe and require the installation of a uniform system of bookkeeping, accounting and reporting for the several departments;
2. To prescribe forms for accounts and financial reports and statements for the several departments;
3. To supervise and examine the accounts expenditures of several departments;
4. To examine, at any and all times, into the accuracy and legality of the accounts, receipts and expenditures of the public moneys and the disposition and use of the public property by the several departments;
5. To keep such summary and controlling accounts as may be necessary to determine the accuracy of the detailed accounts and reports from the several departments, and to prescribe the manner and method of certifying that funds

<sup>5</sup> For a detailed account of the organization and work of the Bureau of the Budget, see *The National Budget System*.

are available and adequate to meet all contracts and obligations;

6. To prescribe uniform rules governing specifications for purchase of supplies, the advertisement for proposals, the opening of bids and the making of awards, to keep a catalogue of prices current and to analyze and tabulate prices paid and quantities purchased;

7. To examine, at any and all times, the accounts of every private corporation, institution, association or board receiving appropriations from the General Assembly.

8. To report to the Attorney General for such action, civil or criminal, as the Attorney General may deem necessary, all facts showing illegal expenditures of the public money or misappropriation of the public property;

9. To examine and approve, or disapprove, vouchers, bills and claims of the several departments, and such as are by law made subject to the approval of the governor and referred to it by the governor, and no voucher, bill or claim of any department shall be allowed without approval and certificate;

10. To prescribe the form of receipt, voucher, bill or claim to be filed by the several departments with it;

11. In settling the accounts of the several departments, to inquire into and make an inspection of articles and materials furnished or work and labour performed, for the purpose of ascertaining that the prices, quality and amount of such articles or labour are fair, just and reasonable, and that all the requirements, express and implied, pertaining thereto have been complied with, and to reject and disallow any excess;

12. To prepare and report to the Governor, when requested, estimates of the income and revenues of the state;

13. To prepare and submit to the Governor, not later than the first day of January preceding the convening of the General Assembly, a state budget;

14. To publish, from time to time, for the information of the several departments and of the general public bulletins of the work of the government;

15. To investigate duplication of work of departments and the efficiency of the organization and administration of departments and to formulate plans for the better co-ordination of departments.

It will be seen from this enumeration that the powers and duties of the Illinois Department of Finance are broader and more definite than those conferred upon the Bureau of the Budget of the national government. Especially is this so in respect to the functions of examining accounts, prescribing the system of accounts to be kept by the operating services, and itself keeping central or controlling accounts. Its head thus performs the duties of a comptroller, duties which under the national government are performed by the independent General Accounting Office, presided over by the Comptroller General of the United States.<sup>6</sup> It should be noted that, though this service is designated a department, and thus is co-ordinate as regards its status with the other administrative departments, which are spending services, it to all effects and purposes is a special agency available to the Governor in meeting his responsibilities as head of the administration. Like the British Treasury it has no duties of an operating character since the collection, custody and disbursement of public funds are entrusted to other agencies. Though the grant of powers is made direct to it instead of the chief executive as in the Federal Government the department functions practically as does the Federal Bureau of the Budget.

**Commission on Administration and Finance: Massachusetts.** In Massachusetts the movement for the strengthening of the powers of central direction and control over the operating services, and the creation of an agency through which this power may be exercised has resulted in an organization presenting important differences from that of Illinois. The history of the steps leading up to the establishment of this system, is a most interesting one, as revealing how slowly was the growth of appreciation of the idea of the necessity for providing for overhead control and the uncertainty as to the means by which this was to be accomplished. The movement for reform was inaugurated in 1912 by the passage of an act<sup>7</sup> providing for the creation of a Commission on Economy and Efficiency, which, in addition to having the duty of investigating and making recommendations regarding action required in order to improve the administrative machinery of the state, was given the

<sup>6</sup> This question as to whether the officer performing the duties of comptroller should be an officer of the administrative branch, and thus subject to the general direction and control of the executive, or should be independent of that branch and directly responsible to the legislature or the people, is one regarding which there is much difference of opinion on the part of students of public administration. It is a matter that will receive consideration in part III, dealing with Problems of Financial Administration. On this reference may, however, here be made to the author's study, *The Legal Status and Functions of the Comptroller General of the United States*, Institute for Government Research, Studies in Administration, 1927.

<sup>7</sup> Laws of 1912, c. 719.

operating function of examining the estimates for appropriations as compiled by the Audit and making recommendations in reference thereto to the legislature. It will be noted that, while provision was made for an overhead scrutiny of estimates as emanating from the spending services, the agency making this scrutiny acted as an agency of the legislature rather than of the executive. By act of June 1, 1926,<sup>8</sup> this commission was abolished and in its place was created the Office of Supervisor of Administration, the duties of which were substantially those of the commission which it supplanted. This system was radically changed by the passage in 1918 of an act<sup>9</sup> providing for a budget system, the important features of which were the vesting in the Governor of the duty of preparing and submitting the budget and the provision that the Office of Supervisor of Administration should act as his agency in complying with his requirement. In the Constitutional Convention of 1918, the administrative reorganization of the commonwealth received a great deal of attention, and an amendment to the Constitution was adopted providing that before 1921 there should be legislation for the organization of the administrative service into not more than twenty departments. In pursuance of this mandate the legislature on July 23, 1919, passed an act<sup>10</sup> grouping the administrative services in fifteen departments. No important change, however, was made by this act in respect to the powers of the Governor over the operation of these services. Dissatisfaction developed in respect to this act, and the legislature in 1921 provided for the appointment of a special commission on state administration and expenditures to investigate. This commission which, was presided over by Mr. Edwin S. Webster and had the assistance of the engineering firm of Stone and Webster, reported in 1922, making important recommendations, among which were the reduction in the number of departments; the substitution of single executives to be appointed by the Governor to head these departments where provision existed for directing boards or commissions; and the erection of one of these departments, to be known as the department of administration and finance, into a department of general administration after the model of the Illinois plan, and the formation of a cabinet to consist of the heads of these departments.

Only one of these recommendations has been adopted by the legislature and that in a form quite different from that proposed by the commission. By an act passed June 13, 1922,<sup>11</sup> provision was made for the abolition of the Office of Supervisor of Adminis-

<sup>8</sup> Laws of 1916, c. 296.

<sup>9</sup> Laws of 1918, c. 244.

<sup>10</sup> Laws of 1919, c. 350.

<sup>11</sup> Laws of 1922, c. 545.

tration and the creation in its place of a Commission on Administration and Finance, with greatly enlarged powers. Through this act there was brought into existence a body having the essential functions of a bureau of general administration. The more important provisions of this act follow:

The act provides that the Commission on Administration and Finance shall be composed of four members to hold office for four years and to be appointed by the Governor with the advice and consent of the Governor's council, with the provision, however, that the first appointees should hold office for one, two, three and four years, respectively, to ensure that changes in the personnel of the board would take place only at the rate of one member a year. One of the four members is designated as chairman by the Governor. The scope of the duties of this commission is set forth in Section 8 of the act in the following terms:

All the rights, powers, duties and obligations of said office (of supervisor of administration) and those of the state treasurer relative to bookkeeping and accounting functions not necessarily connected with the cash and funds which he handles, those of the state auditor, except such as relate to the auditing of the accounts of all departments, offices and commissions of the Commonwealth and to the keeping of reports of such audits, those of the state secretary relative to the purchase of paper for printing and general use and those of the superintendent of buildings relative to purchasing and storeroom functions, are hereby transferred to, and shall hereafter be exercised and performed by the Commission on Administration and Finance established by this act, which shall be the lawful successor of said office, and of a state treasurer, state auditor, state secretary and superintendent of buildings with respect to said rights, powers, duties and obligations.

For the performance of these duties the act provides that the commission shall be organized in three bureaus, a comptroller's bureau, a budget bureau, and a purchasing bureau, each to be presided over by one of the commissioners to be known, respectively, as comptroller, budget commissioner, and state purchasing agent, and that there shall be in addition a division of personnel and standardization in charge of a director of personnel and standardization. The remainder of the act is devoted to enumerating in detail the powers of the commission to control matters of administration. Few states, if any, have gone further in the direction of centralizing control in respect to the purely institutional activities of the government. Of this commission as a central

organ of control, the Speaker of the Massachusetts House of Representatives writes:<sup>12</sup>

This commission exercises under the Governor as complete control over the entire administration as could be desired. It runs the budget, it controls all state purchasing, with a few exceptions and it does the bookkeeping of the state, leaving to the treasurer merely the duties of collecting and disbursing officer and to the state auditor merely the duties which the name of the office implies. The general financial policies are determined by the Governor and legislature through the budget and the appropriation bills thereon. The execution of these policies is in the hands of the Commission on Administration and Finance. With the exception of the salaries of certain higher officials and legislative employees, practically all salaries are left as a detail of administration. Rail rates and increases must be approved by the Commission on Administration and Finance subject to an appeal to the Governor and Council.

The steps leading to the creation and the character of the duties of this commission have been set forth in some detail, as this body represents not only one of the most important examples of an organ of general administration that has been established in this country, but also has features which differentiate it markedly from other efforts in the same direction. It is second to no other agency in its recognition of the need for a central agency of administrative control. It represents, however, a radical departure from the principle advocated in this book and very generally adopted by those states that have gone the furthest in the direction of improving their administrative system. Instead of vesting the powers of general direction and control in the hands of the chief executive and giving to that officer an agency through which he may exercise that power, it vests this power in an independent commission. It is true that the appointment of the members of the commission is vested in the hands of the Governor, but this power can be exercised only with the approval of the Council, an independently elected body of nine members and the terms of office of the members of the Commission are so fixed that, with the exception of the first commission, appointment of only one member a year is within the powers of the Governor. This latter provision has the express purpose of removing from the Governor the power to control the membership of the commission except in part. In like

<sup>12</sup> Benjamin Loring Young, *The Budget System as a Preventive Measure against Public Extravagance*, Seventeenth National Tax Conference, 1924.

manner the Governor has only a restricted power to select other high administrative officers. In nearly all cases the terms of office of high administrative officers who are not elected are for terms of three or five years, while the Governor holds office only for two years, and, the members of administrative boards have overlapping terms. Finally, as regards most important matters the Governor can only act with the approval of the independently elected Council. From a legal standpoint Massachusetts has refused to adopt the principle of making the Governor the administrative head of the government, but has chosen the alternative of vesting most of the powers in an independent agency or requiring that such powers as he does have shall only be exercised with the approval of another independent agency, the Council.

Viewed from the standpoint of principle this system cannot but be deemed defective. In point of fact, however, the system seems thus far to have given satisfactory results. As one student of public administration has expressed it:<sup>13</sup>

The movement toward integrating the state machinery of Massachusetts has resulted in the creation of machinery which at first sight would not seem to be conducive to enlarging the authority of the Governor. The progress of events, however, illustrates in this as in many other instances how dangerous it is to draw conclusions from legal definitions alone, and how necessary it is to examine and weigh the influence of personalities, the force of tradition, and the consequences of the spirit or trend of the times. Under somewhat different forms, Massachusetts has developed a degree of integration the outcome of which is substantially the same as in Illinois.

It may be true that in the case of Massachusetts this system has thus far worked satisfactorily, and may continue to do so. As James Bryce has somewhere expressed it, such is the capacity of the American for government that he can make any political system work. It would be dangerous, however, for other states having different political systems and traditions to infer from this that the same system would give equally good results in their cases.

**Executive Board: Pennsylvania.** Under the influence of Governor Pinchot, Pennsylvania effected a reorganization of its administrative system through the adoption of an administrative code that went into force on June 15, 1923.<sup>14</sup> The important features of this reorganization were: the grouping of the administrative ser-

<sup>13</sup> Leonard D. White, *Introduction to the Study of Public Administration*, 1926, p. 123.

<sup>14</sup> Laws of 1923, No. 274.

vices into departments, the establishment of a budget system, the increase in the administrative powers of the Governor, and provision for centralized control over the conduct of administrative affairs. It is with the last two features only that we are here interested. As regards the first, the new code rests squarely on the principle of looking to the Governor as the officer primarily responsible for the efficient conduct of public affairs. The heads of the new departments are appointed by him, by and with the advice and consent of the Senate; to him is given the responsibility of preparing and submitting the budget; and in his hands rests the general control over the central agencies that have been provided for supervising the conduct of affairs by the operating services. As regards these central agencies, Pennsylvania has adopted a system differing in important respects from those of the other states whose action has been described. Instead of seeking to vest the control function in a single agency, it is more or less distributed among a number of agencies. Of these the most important is the Executive Board, composed of the Governor as chairman and four of the department heads selected by him. To this board is given the power to determine the internal organization of the several departments and commissions, to standardize salaries and wages, fix the hours of labour of government services, allocate certain appropriations, and to investigate and make recommendations regarding the organization, activities, and methods of procedure of the government services with a view to co-ordinating such organization, activities, and methods, eliminating duplication, and securing greater efficiency in the conduct of affairs. Its functions, thus, are largely those of a permanent commission on economy and efficiency, with power to act in certain cases. Central control of material and supply is vested in the Department of Property and Supplies. To this department is given the duty of working out and prescribing standard specifications for the materials and supplies used by the government services and of acting as a central purchasing agent for most of them. Financial control, other than that exercised by the Auditor in the audit of accounts is vested in the Department of State and Finance. This department acts as the agency of the Governor for the preparation of the budget and in administering the system under which the Governor has the power to allot lump sum appropriations. It also has the power to prescribe a uniform system of accounting for the operating services and in other ways to exercise a supervision over the administration of financial affairs. Though this system fails to concentrate in a single agency independent of the operating services, the function of overhead control, it has the merit of providing for such control in an exceptionally complete manner, and there is no reason why valuable results cannot be obtained under it.



**Executive Department: New York.** New York is the latest state to take decisive action in the way of reorganizing its financial and administrative system, increasing the powers of the Governor as head of the administration, and making provision for an organ of general administration. As in the case of Massachusetts, this action was the result of efforts extending over a considerable period of years. Prior to this movement for reform, the administrative system of the state, like that of most of the other states, was composed of a large number of independent bureaus, boards, and commissions, in this case numbering over one hundred and fifty separate agencies, with a Governor possessing little or no powers to direct and control their activities, with no agency for the exercise of superior administrative authority and no means of getting before the legislature a co-ordinated financial and work program.

Positive steps to correct these defects date from Governor Hughes' administration. Repeatedly Governor Hughes recommended the reorganization and consolidation of the administrative services, the centralization of administrative authority in the hands of the Governor, and the grant to him of the power to appoint the heads of the administrative departments who should collectively serve as his administrative cabinet. A resolution to initiate an amendment to the constitution to accomplish these ends, failed of passage. In 1907 he secured the passage of the so-called Moreland act which authorized the Governor in person, or by agent appointed by him, to investigate the management of affairs by every administrative service. It cannot be said, however, that much in the way of permanent results was accomplished under this act. In 1910 he secured the passage of another act providing for the compilation of estimates by the Comptroller and their submission in a single document. In 1913 Governor Sulzer appointed a committee to investigate and make recommendations regarding the administrative machinery of the state, which made various recommendations, among which were ones for the creation of a state board of estimates and a commissioner of economy and efficiency. In response to this recommendation, acts were passed in 1913 providing for the creation of a State Board of Estimates and a Department of Efficiency and Economy, with the provision that the head of the latter should be secretary of the former.<sup>15</sup> Neither of these bodies succeeded in accomplishing what was expected of them and both were abolished in 1915.<sup>16</sup> The convention for the revision of the constitution which assembled in 1915 paid especial attention to this matter of administrative reorganization. In this work they had the assistance of the New York Bureau of Municipal Research,

<sup>15</sup>Acts of 1913, c. 280 and 281.

<sup>16</sup>Acts of 1915, c. 17.

which in collaboration with the Department of Economy and Efficiency prepared and published an elaborate report entitled "Government of the State of New York: A Survey of Its Organization and Functions," and later independently, a companion volume "New York State Constitution and Government: An Appraisal." Influenced largely by these reports, and the fact that the platform of both of the political parties had in 1914 declared in favour of greater centralization of administrative authority, the convention in its draft of a revised constitution provided for the grouping of the administrative services in seventeen departments, the heads of most of which were to be appointed by the Governor and to hold office at his pleasure, and the establishment of a budget system under which responsibility for the preparation and submission of the estimates was to be vested in the hands of the Governor. Had this revised constitution been adopted a system would have been established giving full expression to the principle of making the Governor head of the administration. Unfortunately, for reasons not connected with these proposals, the revised constitution was rejected by the voters in November, 1915. In the following year, by an act approved April 5, 1916,<sup>17</sup> provision was made for a purported budget system. This act, however, vested the preparation of the budget in the hands of the finance committee of the Senate and the ways and means committee of the assembly, acting jointly or separately, and thus must be deemed a retrograde movement in respect to handling this important matter and the idea of looking to the Governor as the head of the administration.

In 1918 Alfred E. Smith, who had been a strong advocate of administrative centralization, was elected Governor. He immediately made the matter of administrative reorganization and the increase of the administrative powers of the Governor one of the measures most strongly advocated by him. In 1919, he created a body known as "The New York State Reconstruction Commission," which with the assistance of the New York Bureau of Municipal Research prepared and published one of the most notable reports on state administration that has ever been issued. This report, which is entitled "Retrenchment and Reorganization in the State Government," recommended and supported by a wealth of facts and arguments, the taking of the action proposed by the proposed constitutional revision of 1915, together with other steps in the same direction, such as the creation of a bureau of administration or an agency to assist the Governor in the performance of his administrative duties. Following this report the legislature passed several bills practically reorganizing the administrative branch by the grouping of certain services in departments. Thoroughgoing reform was only possible, however, through the procedure of consti-

<sup>17</sup>Acts of 1916, c. 130.

tutional revision. This was finally secured by the adoption by the people on November 3, 1925, of an amendment making provision for the grouping of all administrative services in twenty departments, the heads of which, with unimportant exceptions, were to be appointed by the Governor, by and with the advice and consent of the Senate. Upon the adoption of this amendment, Governor Smith appointed a commission, known as "The State Reorganization Commission," of which Charles E. Hughes was made chairman, with the duty of drafting legislation having for its purpose the putting into effect of the constitutional mandate in respect to administrative reorganization. This commission, on February 26, 1926, made its report, which included drafts of laws covering the whole field of administrative reorganization. These drafts were accepted by the legislature practically without change, and together are known as State Departments Law, 1926.<sup>18</sup> At the same time, the legislature adopted an executive budget amendment, vesting in the Governor the duty of preparing and submitting the estimates of appropriations.

Through the adoption of this amendment to the constitution and the passage of these laws, New York takes its place among the states which have adopted the principle of organizing its administrative services in departments, of vesting the appointment of the heads of these departments in the hands of the Governor, of looking to the Governor for the formulation of the financial and work program of the government, and generally of conferring upon the Governor the responsibilities and powers of a general manager of the government corporation. This responsibility of the Governor is emphasized by the provision that, contrary to the preceding practice, the Governor may remove the heads of departments appointed by him without securing the consent of the Senate, the only limitation upon this power being that he shall file with the department of state a statement of the cause of removal and shall report such removal and the cause thereof to the legislature at its next session.

In providing for this reorganization there was recognition of the need for an organ of general administration that shall act as the agency of the Governor in the performance of his administrative duties. One of the departments created is designated the Executive Department. The law creating it provides that it shall have at its head an "Assistant to the Governor," who shall be appointed by the Governor, by and with the advice and consent of the Senate, and hold office at the pleasure of the Governor, and shall embrace five divisions: Division of the Budget, Division of Standards and

<sup>18</sup>Laws of 1926, c. 343, 546, 614, 553, 347, 437, 348, 619, 646, 427, 544, 349, 584, 651, 606, 350, 353, and 354.

Purchase, Division of Inter-Departmental Relations, Division of Military and Naval Affairs, and Division of State Police. The first three of these divisions constitute the organs of central administrative control. In reference to the Division of the Budget, the law thus provides that it shall be the duty of the Director of the Division, "to assist the governor in the formulation of the budget and in assembling, correlating and revising the estimates and requests for appropriations of the civil departments in the state government and also to assist the Governor in the performance of his duties in respect to the investigation, supervision and co-ordination of the expenditures and other fiscal operations of such departments." Full power is conferred upon the Governor to revise, increase, or decrease the estimates as requested by the spending services. The duties of the Division of Standards and Purchase are to prepare standard specifications for government purchases, to enforce their use by the spending services, to establish rules prescribing the conditions and manner under which materials, supplies, and equipment shall be purchased by or furnished to the various services, and generally to act as a controlling agency in respect to this aspect of administrative activities. This division is also given general control over public printing. It is, thus not a central purchasing agency, strictly speaking, but merely one for the direction and control of the purchasing function. The Division of Inter-Departmental Relations consists of a board of the heads of certain departments, with the Governor as *ex officio* chairman, and having the general duty of correlating the activities of the several services,

It will be seen that this Executive Department has substantially the same general function as that of the Department of Finance in the Illinois system. It differs radically from that department, however, in that it does not include among its subdivisions the office of Comptroller. The constitutional amendment of 1925 providing for the reorganization of the government expressly provides that the office of Comptroller shall be independent of the administration, its head being directly elected by the people. To this office is given the duty of controlling all receipts and disbursements from the standpoint of seeing that all legal requirements in respect thereto are observed. It also has the duty of prescribing the methods of keeping accounts and of keeping the central accounts of the government. In this the New York system follows that of the national government. It is a matter of interest that notwithstanding the care with which the State Departments Law was framed provision has been made by law<sup>19</sup> for a new commission to study this law in operation and to report upon changes that may be made in it to perfect its provisions. The commission was instructed to submit its report not later than January 31, 1927.

<sup>19</sup>Acts of 1926, c. 836.

**General Administration Agencies in Other States.** It would be of interest, did space permit, to describe in detail the action that has been taken by the other states for the meeting of this problem of overhead administrative control. The systems that have been described serve to make known with sufficient fullness the various types, of organization that have been set up by the several states and the nature of the powers that have been conferred upon the central agencies for which provision has been made. Illinois system is the one which has exercised the greatest influence and has been the most generally copied. The points of greatest importance are the recognition of the need for strengthening the administrative powers of the governor and the necessity of providing in some way for the exercise of central control over the institutional activities of the operating services. Though progress in respect to the recognition of these two needs has on the whole been rapid during recent years, there still persists in many cases an unwillingness to vest adequate administrative powers in the governor. In not a few instances where provision has been made for overhead direction and control, this power has been vested in a board or commission independent of the governor and responsible to the legislature or directly to the people rather than to chief executive. This is unfortunate; but it will undoubtedly give way in time to the contrary principle, since the whole trend in the reorganization of the administrative systems of the states is in that direction. One of the unsolved problems, however, is that of distinguishing between the control powers of the administrative agency and the popularly elected auditor. This is a matter that will receive further attention when we come to consider problems of financial administration as a special topic.

**Bureaus of General Administration in Municipal Governments.** In the case of American municipalities the problem of central administrative control is a much simpler one than in the case of the states. This arises from the facts that the government machine is in general a more compact organization, operations are carried on in a restricted territory, and the principle of looking to the chief executive, the mayor, as the head of the administration has had general acceptance. Where the city manager type of government has been adopted, this principle has, of course, had specially emphatic expression. In the smaller municipalities the mayor, acting directly, or through the immediate staff of his office proper, can usually exercise the administrative powers conferred upon him without too great difficulty. In the larger cities, however, there is need for special provision for an agency, or agencies, to exercise central administrative powers. In few, if any cases, has adequate provision been made in this direction. The tendency has been to entrust to the Comptroller the exercise of the powers of

control in respect to financial matters, but at the same time to make this office an elective one and thus independent of the mayor. This is the situation in New York City and Philadelphia. In the former city the mayor is, however, given a special agency in the Office of Commissioner of Accounts to assist him in keeping in touch with the administrative operations and needs of the services under his authority. The duties of this office, as described in the Municipal Year Book for 1906 are as follows:

The Commissioner of Accounts makes investigations at the discretion of the Mayor, as well as on his own initiative, into specific departmental conditions and special matters affecting the welfare of the city. The office has been popularly referred to as "The Mayor's Eye," but in reality it is the Mayor's agency for administrative investigation. In addition to the varied studies made into departmental practices for the purpose of simplifying administrative procedure and effecting financial economies, the Commissioner of Accounts has certain duties specifically delegated to him by the charter. The most important of these is the maintaining of continuous audits of the receipt and disbursements of the Comptroller and the Chamberlain. This work involves the auditing of all vouchers passed by the Department of Finance and all warrants drawn against the Chamberlain. Examinations of the financial transactions of the city departments are also conducted periodically by this office. The Efficiency Staff, formerly under the Board of Estimate and Apportionment, but now attached to this office, conducts efficiency studies looking toward the standardization of work processes in the various departments. During the past year the office of the Commissioner of Accounts has supplied assistance, not only to the Mayor but very considerable to the City Chamberlain in his work of administrative reorganization. The services of engineers, examiners and accountants have also been supplied to several of the Mayor's departments in response to their requests for assistance. The Commissioner of Accounts also investigates complaints relating to the city government. Complaints and criticisms received by the Mayor are generally referred to the Commissioner of Accounts for investigation and report. Any citizen may, however, address the Commissioner directly.

Valuable as must be the work of this office to the mayor, it far from performs all the functions properly pertaining to a bureau of general administration. The defect in its organization and powers consists chiefly in the fact that its duties are almost wholly

confined to those of investigation. That this office does not meet the needs is fully shown by the comments of the mayor in his account of the duties of his office submitted to the constitutional convention commission of 1915.

He then said:<sup>20</sup>

Now it has seemed to me that the mayor ought to be more than merely the head of the city government sitting in the City Hall ready to receive the public, appointing the heads of the departments and sending them out to make good independently, or to fail independently; that he ought to be really the business manager of the City of New York, that he ought to have the close contact that would enable him to become an effective business manager. There are problems of policy in the departments that ought to come back to him for settlement. He cannot give the time to them that he should. He needs an agency through which to keep himself in contact with those problems, through which to work co-operatively with the heads of the departments in solving those problems and in building up constructively better administration and control. I tried to create that kind of an administrative agency last year. I asked the legislature to make the office of Commissioner of Accounts constructive in name and functions as well as investigative. I asked it to make that commission one-headed and to call it the department of administration, to keep the investigative functions, to add the constructive, to give me, in short, an agency which I could send out into the departments, analyzing their problems, working with their commissioners, building up co-operatively with them, but with the advantage of a detailed point of view, a central point of view, the constructive plans of administration in those departments. Working through the office of the commissioner of accounts as it is now, and with the aid of the city chamberlain, we were able to cut down the cost of these departments by \$2,000,000, or by \$1,500,000 in my departments; and we were able at the same time to give a greater measure of service and a better quality of service. If the mayor were equipped with an effective administrative arm, through the reorganization of the office

<sup>20</sup>New York State Constitutional Convention Commission, 1915. The Government of the City of New York. A collection of addresses and discussions presented at a series of eleven lecture conferences held under the auspices of the Academy of Political Science in the City of New York, with the co-operation of the Bureau of Municipal Research, the Institute of Arts and Sciences of Columbia University, and a Citizens' Committee, April 7 to 30, 1915, pp. 14-15.

of commissioner of accounts, which the legislature alone can authorize, he would have that means of maintaining contact with administration and control over it that he does not have to-day. I do not believe that we shall get the fully effective and economical administration of the departments of the city government that we all want, and that the people of New York are entitled to, until the mayor is equipped with that administrative arm through which to accomplish this result.

It would be difficult to find anywhere a more direct and stronger statement of the need for giving to a chief executive the powers and responsibilities of a general manager and of furnishing him with a service of general administration through which he might meet these responsibilities than is contained in this statement of the late John Purroy Mitchel. It is all the more weighty, coming as it does from probably the most capable chief executive that our most important municipality, or for that matter any other municipality, has ever had.



## CHAPTER V

### ORGANISATION OF THE ADMINISTRATIVE BRANCH AS A WHOLE<sup>1</sup>

Throughout the present work the principle of presentation followed is that of proceeding from the general to the particular. Having examined the nature and functions of the legislature as the board of directors of the government corporation and of the chief executive as its general manager, the next question logically in order is that of the fundamental character of the scheme of organization of the operating services that is required for the most efficient and economical administration of public affairs. Stated in another way, this question has to do with the determination of the number and character of the distinct services that shall be set up for the performance of the work to be done and the relations that they shall have to each other.

**The Administrative Branch as a Single Integrated Piece of Administrative Mechanism.** In entering upon this study the primary point to be emphasized is that not the first step towards the construction of a proper administrative system can be taken until a definite decision has been reached regarding the fundamental character of the organization that it is desired to establish. Approaching the problem from this standpoint, it may be said that the administrative branch of a government should constitute a single integrated piece of administrative mechanism. By this is meant that the several administrative services, instead of being viewed as isolated or independent units should be treated as working parts of a general organization to the end that each, while having its distinct sphere, will work in harmony with all the others towards the attainment of common objects.

**Two Principles of Organization: Independent or Uncorrelated and Integrated or Departmental.** Examination of the organization of the administrative branches of our governments, national and state, reveals that they have been based on two distinct principles. These two types of organization, for want of better

<sup>1</sup>In the preparation of this chapter the author has drawn largely upon his work "The Reorganization of the Administrative Branch of the National Government," Institute for Government Research, Studies in Administration, 1923. In places matter has been reproduced from that volume with little change even though quotation marks have not been employed.

terms, may be designated as the independent, or uncorrelated, and the integrated, or departmental. In the independent system each service is treated as an independent unit having little or no direct relation to other services. Under it the line of authority runs direct from the operating service to the chief executive or to the legislature by which it was created and is currently directed and controlled. In the integrated system the attempt is made to group all services whose operations fall in the same general field, and which consequently should maintain intimate working relations with each other, into departments presided over by officers having a general oversight of them all and entrusted with the duty of seeing that they work harmoniously towards the attainment of a common end. Under this system the line of authority runs from the several services to the departments of which they are subordinate units, and from these to the chief executive or to the legislature, whose jurisdiction extends over all the departments.

Until comparatively recent years the administrative systems of our states corresponded, and to a large extent still correspond, to the independent type of organization. In marked contrast with this, the national government has from the start adopted, in principle, the practice of grouping allied services in a relatively small number of departments. As will be later pointed out, this principle has not in all cases been consistently adhered to. Especially has it been departed from in recent years. Furthermore, even where the principle has been adhered to, the scheme of grouping has been by no means a logical or satisfactory one. For present purposes, however, it is sufficient to note that the administrative system of the national government in general conforms to the integrated, or departmental, system of organization.

**Superiority of the Integrated System.** Of the relative advantages of these two systems there can be no doubt. The second, or integrated system is, from almost every point of view, far superior. Its first advantage consists in the general simplification of the problem of government that is thereby secured. Both our national and state governments are now on such a large scale and engaged in so many and varied activities that it is a matter of great difficulty, even for those responsible for the conduct of their affairs, to say nothing of the general public, to get any comprehensive conception to the scope of their work and of the particular services conducting it. Anything that will tend to lessen the difficulty is of advantage. Especially does it make possible more intelligent legislation and a more effective use by the public of services which are intended as an aid to it in the conduct of its affairs.

Secondly, a proper grouping of services whose operations fall in the same general field into departments greatly facilitates, if it does

not lay the essential basis for, the formulation and adoption by a government of a proper work program. One of the greatest criticisms that can be made of the manner in which our governments have been administered in the past is that they have attempted to operate without any definite program. As will be later pointed out, one of the prime objects sought in the movement, which has now gained such headway, for the adoption of a budget system by our national and state governments is the correction of this condition of affairs. In its essence this system calls for the formulation and submission to the legislature at each session by the chief executive, of a comprehensive program of what, in his opinion, should be the work program of the government for the ensuing fiscal period and the manner in which this program should be financed. In this program he must set forth clearly just what provision in his judgment should be made for the maintenance of law and order and the protection of the public from internal disorder or foreign aggression, what for the promotion of public education, what for the prosecution of public works, what for the control of industry and commerce, and what for the advancement of the general welfare; in a word, precisely what should be done with respect to all of the varied activities engaged in by the modern government.

It must be evident that it is an exceedingly difficult task for a chief executive to meet this obligation, or for a legislature, to give the proposed program intelligent consideration, unless the chief executive himself can look to a relatively few chief subordinates, each of whom has responsibility for all the services whose operations fall in the same field of endeavour. It is no mere coincidence, therefore, that the movement for the reorganization of the administrative branches of our state governments so as to make them conform to the integrated principle of organization, has gone hand in hand with that for the adoption of a scientific budget system.

Thirdly, a proper grouping of operating services departmentally furnishes the only means by which conflicts of jurisdiction, overlapping of functions, and duplications of organization, plant, and activities may be avoided. The extent to which these evils exist and the consequent waste and misdirection of energy resulting wherever this problem of a satisfactory grouping of services has not been worked out, have long been recognized by students of political science. If all services which work in the same field or which maintain intimate working relations with each other are brought together under a common head, it becomes a matter of comparative ease for each head to take steps to eliminate all such conflicts and duplication and to make sure that each service under his jurisdiction is performing only those duties to which it is best adapted.

Fourthly, the bringing together in a single department of related services makes possible a far more effective utilization of technical

plant, such as libraries, blue-print rooms, laboratories, and of facilities generally, than can possibly be secured where these services are independently operated. So long as they are independent of each other, each must have its own complete organization and installation. If they are brought together under a common direction, and better still if they can be brought under a single roof, it becomes feasible for them to make common use of a single work agency. This agency, moreover, being on a somewhat more elaborate scale, in order to meet the increased demands put upon it, is certain to be superior in equipment and facilities to those which each service would otherwise be required to maintain.

Finally, and in some respects most important of all, such a grouping makes possible the realization of great economies and increased efficiency in the performance of the purely institutional activities in which the several services have to engage in order to perform their primary functions. A prime characteristic of these institutional activities is that they are the same in general character for all services. This being so the question is presented whether it is not in the interests of economy and efficiency that they should be performed by central agencies. Where services are independent, each has to have its chief clerk, its purchasing officer, its appointment clerk, its disbursing officer, its division of supplies, etc. Brought together in departments, it is almost invariably found that single departmental officers can discharge the duties of these officers with equal if not greater efficiency and with a great economy in the expenditure of funds. An incidental advantage is that by making use of such central officers the highly desirable end of securing standardization and uniformity in respect to the performance of these business activities is rendered easy of attainment.

To recapitulate, the advantages of the departmental system of organization, if properly carried out are: that it correlates the several operating services of the government into one highly integrated and unified piece of administrative mechanism; that it ensures the establishment of an effective system of overhead administration and control; that it makes definite the line of administrative authority and responsibility; that it lays the basis for, if it does not automatically effect, the elimination of duplication in organization, plant, equipment, personnel, and activities; that it makes possible effective co-operative relations between services engaged in the same general field of activity that can be obtained in no other way; that it furnishes the means by which overlapping and conflicts of jurisdiction may be avoided or readily adjusted; that it facilitates greatly the standardization of all administrative processes and procedure; that it permits of the centralization of such general business operations as purchasing, the custody and issue of supplies, the recruitment and handling of personnel, the

keeping of accounts, the maintenance of libraries, laboratories, blue-print rooms, etc., and, finally, that it furnishes the absolutely essential foundation for a properly organized and administered budgetary system.

**Requirements of a Properly Integrated System.** In the foregoing the superiority of the integrated over the independent system of organization has, it is believed, been established beyond question. The adoption of a correct principle of organization, however, represents but a point of departure in working out a satisfactory system of organization. There still remains the important work of putting this principle into practical application. Many if not all of the advantages inhering in the integrated system can be neutralized if not wholly lost by a failure to meet the requirements of this system. It is of importance, therefore, that these requirements should be carefully determined.

The first and most important of these requirements is that the principle of grouping the several services into departments shall be the correct one. As regards what this principle should be, there can be no doubt; it should be that of bringing together under separate departments all those services, and those services only, which have the same general function in respect to the work to be undertaken by them. Concretely, this means that as far as is practicable the departments, viewed in a large sense, should be unifunctional. To secure this, two things are necessary: first, that the several departments shall include all of the services whose operations fall within their respective fields; and, second, that they shall include no other services.

Advocates of the integrated, as opposed to the independent, system of organization of administrative services often apparently take the position that there is some gain in the mere grouping of services into a relatively small number of departments. It cannot be stated too emphatically that this is not so. Unless the services so grouped have a real working relation to each other, their grouping departmentally is a positive disadvantage. Thus, it must be evident that not only is no advantage secured in grouping such services of the national government as the Public Health Service, the Coast Guard, of the Office of Supervising Architect in the Treasury Department, but that such action results in a positive detriment both to the department itself and to such services. As regards the department, it interjects discordant and disturbing elements which complicate and render difficult the proper co-ordination of the services having to do with its essential function and the standardization of their administrative practices and procedure; it makes a demand upon the attention and time of the head of the department, which should be devoted exclusively to his primary duties; and it

places upon him a responsibility which he should not have and which he is sure to meet only in a perfunctory manner.

As regards the services themselves, placing them under department whose primary function is not that of dealing with matters with which they are concerned subjects them to an overhead control that can add little or nothing to their effective operation, and slows down many of their administrative processes through the necessity that they are under of securing the approval of the departmental head before any step of importance can be taken. There is much just criticism of the dilatoriness with which the government services perform their work and the red tape that is required in the discharge of official duties. Much of the responsibility for this condition of affairs lies in this defect of organization now under consideration. Much of the delay that occurs in the handling of public business takes place on the desks of the officers having charge of the work. For a certain part of this, such officers are directly responsible. In large part, however, it is due to the necessity that these officers are under of getting the approval of some superior authority before final action can be authorized. Were there any real need for such overhead control and were the secretary, or the assistant secretary acting for him, in a position to make any real contribution to the settlement of the questions involved, there might be some justification for this requirement. Such, however, is not and cannot be the case where the services involved are of a character having nothing to do with the primary duties of those officers. The only case where such superior control is needed, or can be justified, is where there are a number of services whose operations fall within the same general field and where, consequently, it is necessary that there should be some superior authority to see that they work in harmonious relations with each other, that duplication of work is avoided, conflicts or overlapping of jurisdiction prevented, and administrative practices, as far as is feasible, standardized.

So much attention would not have been given to this subject but for the fact that the considerations here involved are so largely ignored in practice. Particularly is this so in the case of the national government, which is supposed to have an exceptionally well-developed system of departmental organization. As will be later pointed out in greater detail, the grouping of services of the government is in many respects of the most arbitrary character. Not only are there four departments, the Departments of the Treasury, Interior, Commerce, and Labour, which embrace services having no real working relations with each other, but the other departments which are, in principle, of a unifunctional character, have attached to them services having nothing to do with their prime function. Nothing but a thorough-going reorganization of the administrative branch of the national government in accordance with the principle

that has been set forth, will give to that government the advantages that should accrue to it under a departmental system of administrative organization. ✓

**Determination of Services to be Included in a Departmental Grouping.** It might seem that, once the principle of establishing strictly unfunctional departments were adopted, little difficulty would be encountered in putting it into execution. In point of fact, this is not so. As soon as the concrete task is entered upon of making such a grouping, a number of considerations, if not difficulties, are presented which offer at least a wide range of choice in taking action. Especially is this so in the case of the national government, the activities of which cover so many distinct fields of endeavour. First among the considerations which must be noted is that of determining the services usually regarded as belonging to the administrative branch that should be included in the departments it may be decided to set up.

Examination of these services, or offices, reveals that certain of them are not of a strictly administrative character, or at least not of a character that renders it desirable that their operations should be subjected to the control of a superior executive officer in the same way as the other more purely administrative services; that is, those services whose duties are primarily of a quasi-legislative or quasi-judicial character, or which have as their function to act as subordinate agencies of the legislative rather than of the administrative branch. Examples of such services are the Interstate Commerce Commission, the Federal Trade Commission, and the United States Shipping Board. Primarily these three bodies were created by Congress to formulate and promulgate rules and regulations having the force of law to govern the operations of railroad, shipping, and other transportation agencies and industrial and commercial corporations engaged in interstate commerce, and to hear and decide issues arising under such rules and regulations or statutes pertaining to the matters over which they have jurisdiction. Their duties, in a word, are of a legislative and judicial, or at least of a quasi-legislative and quasi-judicial character. As such it is improper and inadvisable that their activities should be subject to executive direction and control. In so far as they act in a quasi-legislative character, these services should be subject directly to Congress, on whose behalf they are acting; and in so far as their action has a quasi-judicial character, superior control should be vested in the courts. It would be a great mistake, therefore, to attempt to make these, or other services having a similar character, subordinate services of an administrative department which is under the immediate direction and control of the chief executive. ✓

It is true that purely administrative duties have been entrusted to the services that have been mentioned. For example, the Inter-

state Commerce Commission has the administration of certain laws requiring the railroads subject to its jurisdiction to make use of devices, such as automatic couplers, power brakes, etc., in order to ensure the safety of railroad operatives and the travelling public. The Shipping Board, furthermore, through its subordinate agency, the Merchant Fleet Corporation, has the purely administrative task of constructing, operating, or controlling the operation of vessels engaged in interstate or foreign commerce. This only raises the question whether this policy of entrusting to the same agency both quasi-legislative and quasi-judicial on the one hand and purely administrative duties on the other, is a correct one. Without entering fully into this question, which is an exceedingly important one, the author can only state that in his opinion this policy is unwise. It is his belief that it is highly desirable that these services should be relieved of all of their purely administrative duties and that such duties should be given to other agencies which could then be placed under the administrative departments to which they properly belong. Until this is done, however, these agencies should be left outside of any departmental grouping of administrative services.

**Principle upon which Operating Services should be Grouped Departmentally.** After a decision has been reached regarding the services which should be subjected to a departmental grouping the next problem presented is that of determining the principle that should be followed in effecting such a grouping. A study of the factors entering into this problem and the proposals that have actually been made for its solution shows that the choice lies between the principles of grouping operating services in departments. That is, should they be grouped according to the fundamental purposes for which the services are created and maintained; or according to the character of activities engaged in by the services in order that these fundamental purposes may be achieved? If services are to be grouped according to their fundamental purposes, an effort should be made to determine what are the distinct functions of the government, viewed from a general standpoint of work undertaken; to create separate departments for the performance of these several functions; and to include under each department all services the activities of which have to do with its function. If services are grouped according to the character of activities, the effort should be made to determine the activities engaged in by the several services, such as engineering work, scientific research, statistical, etc., and to bring together under separate departments all those services whose activities, from this standpoint, are of the same or of an analogous character.

Though, as will be pointed out, there cannot be the slightest doubt that services should be grouped according to their functional



purposes, it has been necessary to point out these two antagonistic principles, since efforts have been, and are being made, to effect a regrouping of the services of the national government upon the character of activities; or rather, through a failure to recognize that any principle is involved, to effect a reorganization of the existing departments in which neither the one nor the other is consistently followed. For example, a strong effort was made some years ago to vest in a single department or bureau of chemistry the performance of all of the chemical work that had to be done by the government. In support of this it was argued that the government was at that time maintaining a number of bureaus of chemistry or chemical laboratories; that this resulted in duplication of plant, personnel, and work; and that the work to be done could be much more efficiently and reasonably performed by a single well-equipped service. In like manner there was at one time a strong movement for the creation of a central statistical service that would take over all the statistical work then being done by various statistical services scattered among the several departments, the same argument being used that the performance of statistical work was of a highly technical character and could be most effectively and economically done by a single well-equipped service. At the present time there is a corresponding movement for the creation of a department of public works that will take over the performance of all the engineering and construction work that has to be done by the several departments of the government other than the purely military and naval construction work of the War and Navy departments. Here, too, the claim is made that the government is now maintaining a large number of distinct services, each having its own plant, equipment, and personnel in order to perform work of this character; that this results in duplication of plant and effort; and that, manifestly, a great economy and increased efficiency would be secured by having all this work done by a single, strong department.

Plausible as these arguments might seem to be at first sight, they are essentially unsound. In the first place, such a policy is unworkable in practice. As a matter of practical expediency it is highly desirable, if not imperative, that each service, or at least each department, shall have direct charge of the performance of all activities in which it engages in order that it may perform its prime function. To state this concretely, it is desirable, for example, that the service having charge of the administration of the railway interests shall itself have direct charge of the securing, compiling, analysis, and presentation of railway statistics, that the Public Health Service shall in like manner have responsibility for the collection, compilation, and presentation of vital statistics, etc. Anything like a scattering of activities for the performance of

a single function among a number of departments would work disastrously.

Apart from this matter of practical administration, such a grouping of services would mean the defeat of one of the main ends to be attained by a proper grouping departmentally of services; that, namely, of concentrating in a single head full responsibility for all matters pertaining to a general field of endeavour. This is true not only from the standpoint of government operations but from that of the public to be served.

In thus deciding that the primary function, rather than the character of activities engaged in, should be the basis of a departmental grouping of services, it is important to note that, under it, substantially all the objects sought under the rejected principle can be secured by providing that these functional departments, in addition to administering the services directly included in them, may act as contracting agencies for the other services. For example, it is not necessary that the Indian Service shall be under the Department of Public Work simply because it has to have irrigation works constructed as an incident to its operations. Having determined what works of this character are required, it can then call upon the Department of Public Works to undertake their construction on its behalf. In like manner the Bureau of Lighthouses, or the Public Health Service, or any other service requiring the erection of structures, can make use of the Department of Public Works as the contracting or executing agent for the erection of such buildings. The facilities for research possessed by a Department of Education and Science can in the same way be utilized by the service of the government having need for the prosecution of special research studies in order that it may more effectively discharge its functions.

To recapitulate, it is believed that the following principles should find expression in a reorganized administrative system;

1. That the type of organization to be adopted should be that known as the integrated or departmental.

2. That a clear distinction should be made between those services which are of a purely administrative character and those which are of a quasi-legislative, quasi-judicial, other special character, and that the attempt to apply the principle of departmentalization should only be made in reference to the administrative units.

3. That the principle of departmentalization should be that of grouping services according to their purpose or function rather than the character of activities engaged in; and

4. That each department should, as far as practicable, be made unfunctional in the sense that it will embrace only those services whose special functions pertain to the general function for the performance of which the department is established.

**The Practical Problem of the Reorganization of the Administrative Branch of Governments.** Having determined the principles that should govern in framing a departmental administrative system, the concrete task is then presented of determining the number and character of departments that will be created and the assignment of particular administrative services to such departments. This problem, it need hardly be stated, is a special one for each government, due to the differences between governments in respect to activities engaged in and services that have been created for their performance. Notwithstanding this, the problem as it confronts the individual states is not dissimilar, since to a very large extent the major activities of these bodies are the same. The problem of working out a proper grouping departmentally of the administrative services of the national government, on the other hand, is a highly special one. This arises not only from the great variety of activities engaged in by that government and the multiplicity of services for their performance, but from other special considerations as well. Chief among these are: that the administrative services of that government are already to a large extent grouped departmentally and the problem is one of regrouping services instead of making an original grouping as in the case of the states; that the heads of departments, in addition to acting as directing heads of their departments, constitute a cabinet which serves as a consultative and advisory body to the President; and that, due largely to this latter fact, there is strong opposition to unduly increasing the number of departments now in existence.

In the pages that immediately follow it is our intention, therefore, to consider specially the question of action that should be taken to give to the national government a proper departmental grouping of the administrative services. This done, a more general consideration will be given to the same problem as it confronts the individual states.

**Departmental Regrouping of the Administrative Services of the National Government.** It needs but a superficial examination of the manner in which the administrative services of the national government are now grouped departmentally to show how widely the system departs from the correct principles of an integrated administrative system as laid down in the preceding pages.

In the first place, it shall be found that there are a number of services—the Government Printing Office, with its subordinate

agency, the Office of Superintendent of Documents, the Public Buildings Commission, the National Botanic Garden, and the National Forest Reservation Commission—which, though of a purely administrative character, are attached to the legislative branch. In the case of these services the attempt is made to exercise a general direction and control over other operations through joint committees of Congress or commissions composed in whole or in part of members of Congress. The objections to this arrangement are obvious. In the first place it violates the fundamental principle of distinguishing clearly between the functions of the three great branches of government. Secondly, it throws a burden of responsibility and work upon the already overburdened members of Congress which they have neither the capacity nor the time to perform. And, thirdly, it prevents these services from having the close working relations that they should have with other services having the same general functions to perform.

The remedy for this condition consists in relieving Congress of all direct responsibility for the administration of these services and placing them in the departments having to do with the subjects to which their activities relate. Doing this will not only correct the specific evils which have been enumerated, but also tend generally to improve the organization of the government. Any change that gives to the government a more logical and symmetrical organization simplifies by just so much the task of grasping the problems of government and of taking the necessary legislative, financial, and administrative action required for the conduct of public affairs. To give but one illustration of the confusion resulting from the present arrangement, the expenditures entailed in maintaining and operating these institutions, amounting to several millions of dollars a year, now appear in the official report of government expenditures as expenditures of the legislative branch of the government. It is manifest how misleading this is when one attempts to determine the true cost of operating our national government. One of the advantages sought from the adoption of a scientific budget system is that a properly prepared budget will automatically reveal the expenditure needs of the government, past and future, so presented that the problem of financing the government can be readily seen as a whole and so analyzed that the several factors involved in it are clearly apparent. It is difficult to secure such a system so long as services are illogically grouped.

Secondly, the originally correct practice of placing all purely administrative services under one or the other of the executive departments have been widely departed from. Until a few years ago the number of such services not so placed was comparatively small, and there was a special reason in each case why the service was given this status. In the last ten years, however, the number has

been largely added to, with the result that at the present time a considerable part of the administrative duties of the government is performed by services which are not under any of the executive departments and which are not, therefore, represented in the President's Cabinet. Among such so-called independent establishments may be mentioned the Library of Congress, the Federal Board for Vocational Education, the Veterans' Bureau, the Panama Canal, the Federal Power Commission, the Employees' Compensation Commission, and the Smithsonian Institution, with its numerous subordinate agencies. All of these independent establishments should be made subordinate services of one or another of the administrative departments.

Thirdly, at least two of the ten executive departments, the Department of the Interior and the Department of Commerce, make little or no pretence of being unifunctional in the sense that the activities of their several services fall in the same general field, have to do with the same general function, or even are of a character making it desirable that the services performing them should maintain close working relations with each other. The former of these departments embraces such unrelated services as the Reclamation Service, the Bureau of Pensions, the Bureau of Education, etc., and the latter such unrelated services as the Bureau of Standards, the Bureau of Lighthouses, the Bureau of Fisheries, etc.

Fourthly, a number of other departments which, in theory at least, are supposed to be unifunctional, embrace services and perform activities having nothing to do with their prime functions. The chief offender in this respect is the Treasury Department, which contains such discordant elements as the Office of Supervising Architect, the Coast Guard, the Public Health Service, and the General Supply Committee, none of which perform duties connected in any way with the administration of the national finances properly speaking. Especially unfortunate, also, is the fact that purely civil functions have been imposed upon the two military departments. The War Department not only has charge of the prosecution of all river and harbour improvement work and many miscellaneous public work activities of a civil character, but is also operating such services as that of the Northern and North-western Lakes Survey, the Bureau of Insular Affairs, the Inland and Coastwise Waterways Service, etc., while the Navy Department has under its jurisdiction the Naval Observatory and the Hydrographic Office.

Fifthly, purely administrative activities, in a number of cases, have been entrusted to bodies whose primary functions are of a quasi-legislative and quasi-judicial character. Thus, the Shipping Board has been entrusted with the duty of maintaining and operating a fleet of government vessels, while the Interstate Commerce Commission has been given such administrative duties as the

enforcement of the safety appliance acts, the inspection of locomotive boilers, etc.

Sixthly, little or no distinction has been made between those services which have as their duty to minister to the institutional needs of the government and those whose functions are to render service to the public, with the result that no attempt has been made to put the organization and administration of the former upon a proper basis. We thus find the services having to do with the supply of printing and quarters at Washington attached to the legislative branch; that having to do with the supply of material, a subordinate service of the Treasury Department. In like manner we have the work of administering a system for the insurance and pensioning of government employees entrusted to three separate services having no organic relation with each other.

Finally, if one passes from a consideration of the location and status of distinct services to that of the distribution of specific activities among these services an absence of any systematic plan is still more marked.

This unsatisfactory condition of affairs has been the inevitable result of the manner in which the administrative services and departments have come into existence. The administrative branch of the national government has had a development analogous to that of a rambling group of buildings composed of successive accretions of wings, additions, sheds, and outlying structure, each erected to meet a specific need, but not designed with any reference to the production of an harmonious assembly of buildings. In large part the government has entered upon the performance of new activities in response to the solicitation of existing services which desired to extend the scope of their operations, or of private organizations interested in particular lines of work. In many cases the only authorization for such work is to be found in the appropriations granted for its performance. The distribution of duties among the services, and to a certain extent the grouping of services departmentally, has been almost a matter of chance, or at least one not made in pursuance of any carefully thought-out plan. At rare intervals, when provision was being made for new departments, something in the way of a more logical grouping of the services immediately involved has been attempted. At no time, prior to the creation in 1920 of the "Joint Committee on the Reorganization of the Administrative Branch of the Government," to which reference will hereafter be made, has the government ever attempted to take stock of all its activities, the distribution of those activities among its several services and the grouping of those services departmentally with a view to bringing into existence a thoroughly harmonious and efficient organization of its administrative branch.

The result of this failure on the part of the government to apply itself seriously to the task of working out an efficient administrative system has been that it now possesses an administrative establishment that fairly bristles with incongruities and defects. Services whose duties fall in the same field and which have, or should have, the most intimate working relations with each other, are scattered among a number of departments where it is exceedingly difficult for them to work in co-operation and often even in harmony with each other. Many departments, as has been pointed out, have attached to them services which have nothing to do with their primary function and which thus introduce into them elements that can only tend to complicate and interfere with the performance of their primary duties. Activities which should be performed by a single strong service are scattered among a number of services. Conflicts and overlapping of jurisdiction of services are numerous. Unnecessary duplication of organization, plant, personnel, and operation is widespread.

**Movement for Reorganization.** The fact that the national government had a faulty administrative organization has long been reorganized. The first serious effort to improve it was made by the President's Commission on Economy and Efficiency, which functioned under President Taft during the years 1911-1913. This body made a number of reports recommending specific change. Unfortunately, however, its existence came to an end, through the failure of Congress to provide for its continued support, before it was prepared to make a comprehensive report on the subject which it had in preparation. Events growing out of the war, and particularly the great extension of the activities of the government and the increased burden of taxation, were responsible for again raising the question of putting the government upon a 'more efficient and economical basis as a problem of practical politics. Almost coincident with the establishment of a budget system, account of which is elsewhere given, Congress by joint resolution of December 17, 1920, provided for the creation of a "Joint Committee on Reorganization," to consist of three members of the Senate and three members of the House, appointed by the presiding officers of those bodies, with the duty of studying this whole subject and recommending the action to be taken. Specifically, it was made the duty of this committee:

To take a survey of the administrative services of the government for the purpose of securing all pertinent facts concerning their powers and duties, their distribution among the several executive departments and their overlapping and duplication of authority; also to determine what redistribution of activities should be made among the several services, with a view to the proper correlation of

the same, and what departmental regrouping of services should be made, so that each executive department shall embrace only services having close working relation with each other and ministering directly to the primary purpose for which the same are maintained and operated, to the end that there shall be achieved the largest possible measure of efficiency and economy in the conduct of government business.

The instructions given to this committee have been set forth in full, since they show that the framers of the resolution, and Congress in passing it, had clearly in mind the character of administrative organization that it was desired to achieve.

Later, by a supplemental joint resolution, approved May 5, 1921, provision was made for adding to the committee a representative of the President, to be appointed by the latter, on the theory that it was desirable that means be provided by which the committee might get before it in an authoritative manner the opinion of the President and his Cabinet officers regarding the changes that should be effective. Due to this action the committee adopted the policy of itself doing nothing until the representative of the President, Mr. Walter F. Brown, had studied the problem in conference with the President and his Cabinet advisers and was prepared to lay before the committee a program of reorganization that represented the opinion of the executive branch of the government as to what should be done. The formulation of such a plan required a much longer time than was anticipated; and it was not until May 13, 1923, that the President, by a letter addressed to the joint committee, laid before that body the plan that had been worked out.<sup>2</sup>

In the meantime, the Institute for Government Research, which since its establishment in 1916 had been subjecting the whole administrative organization of the national government to intensive examination, embodied the results of its study in a manuscript of something over four hundred pages, which was mimeographed and, in March, 1921, was submitted to Mr. Brown, the other members of the joint committee, the President, Members of the Cabinet, and other important administrative officers as an aid to them in considering the problem before them. There can be little doubt that the administration was greatly influenced by this report,

<sup>2</sup>This letter and accompanying plan was printed as Senate Doc. 302 67th Cong., and is entitled: "Reorganization of the Executive Departments. Letter from the President of the United States to Walter F. Brown, Chairman of the Joint Committee on Reorganization of Government Departments Transmitting a Chart Exhibiting in detail the Present Organization of the Government Departments and the Changes Suggested by the President and the Cabinet." This document indicates the changes recommended, but contains no arguments in their support.



since the plan of reorganization suggested by the President follows its recommendations very closely. Noteworthy features in respect to which the two are in accord are: the recommendation for the consolidation of the War and Navy departments into a single Department of National Defence, the creation of a Department of Public Works and Public Domain, the grouping of all the services having to do with maritime affairs as a distinct group under the Department of Commerce, the enlargement of the scope of the Department of Commerce so as to make it in effect a Department of Commerce, Industry, and Maritime Affairs, the consolidation of the Lake Survey of the War Department and the Hydrographic Office of the Navy Department with the Coast and Geodetic Survey, the abolition of the Coast Guard of the Treasury Department and the transfer of its Revenue Cutter Service to the Navy Department and its Life Saving Service to the group of maritime services under the Department of Commerce, the stripping of the War and Navy Departments of all of their non-military and non-naval services and duties, and the stripping of the Treasury Department of all of its non-financial services. The most important feature with respect to which the President's plan departed from that of the Institute for Government Research consisted of the recommendation for the creation of a Department of Education and Welfare, while the Institute's program proposed the creation of a Department of Education and Science and a Department of Public Health.

The general character of the scheme of departments now in existence and proposed by the President and the Institute for Government Research is shown in the following statement:

Existing departmental system	President's proposal	Institute for Govern- ment Research proposal
1. State	1. State	1. State
2. War	2. National Defence	2. National Defence
3. Navy	3. Treasury	3. Treasury
4. Treasury	4. Justice	4. Justice
5. Justice	5. Communications	5. Post Office
6. Post Office	6. Agriculture	6. Agriculture
7. Agriculture	7. Commerce	7. Commerce
8. Commerce	8. Labour	8. Labour
9. Labour	9. Interior	9. Public Works and Public Domain
10. Interior	10. Education and Welfare	10. Education and Science
		11. Public Health

Note.—Though the name "Interior" is retained in the President's program for the Department of the interior, the proposal is for a Department of Public Works and Public Domain as proposed by the Institute for Government Research.

It is not feasible within the compass of the present work to indicate the services comprehended under the departments either as they exist at the present time or under the proposed plans. It should be borne in mind, however, that in many respects the most serious defects in the existing organization, and the most important changes suggested, consist not so much of the number and designation of the departments, existing or proposed, as of the grouping of the services under the departments. All that can be said is that the proposals of both the President and the Institute for Government Research represent a marked improvement over existing conditions with respect to making the departments as unfunctional as circumstances will permit. When certain departments include more than one distinct group of services, as, for example, the Department of Commerce, which includes the three groups of commerce, industry, and maritime affairs, or the Department of the Interior or of Public Works and Public Domain, which includes the two groups of public works and public domain, account can be taken of the fact by providing that each group will be under the immediate direction of an assistant secretary, and it will be a matter of comparative ease subsequently to split such departments into two or more departments, each having jurisdiction over one of the groups, without necessitating in any way a rearrangement of services in the other departments.

**Departmental Regrouping of the Administrative Services of the States.**<sup>3</sup> As has been indicated, prior to the recent movement for the improvement of the administration of the states which began about ten years ago, all of the states had administrative systems corresponding to the independent or uncorrelated type of organization. The general policy adopted was that of setting up a distinct service having little or no relation to other services for the performance of each activity or line of work undertaken by the state. The extent to which this policy was carried is shown by the fact that Massachusetts had over 200 separate administrative or quasi-administrative agencies, New York, 187, Michigan, Illinois, and Delaware, over 100 each; and Maryland, 85. It would probably be safe to say that the great majority of the states had as many as fifty separate services and many states other than those enumerated, a still greater number.<sup>4</sup> Many activities were in charge of *ex officio* boards. In Michigan, for example, the Governor, in 1920, was *ex officio* member of twenty-four different boards.

About ten years ago the states began to concern themselves with the general problem of improving their methods of administration.

<sup>3</sup>See Appendix, Bibliographic Note No. 4, "Administrative Reorganization of the States."

<sup>4</sup>W. F. Dodd, *State Government*, p. 224.

One after another of the states provided for the appointment of legislative committees or commissions to investigate existing conditions and to make recommendations for improvement. Almost without exception these bodies reported that one of the fundamental reforms that should be accomplished was that of the adoption of the departmental system under which all of the administrative services would be grouped as subordinate services in a relatively small number of departments, each as far as practicable concerning itself with a single general field of activities. In some cases these recommendations were acted upon and in others not. The movement, however, is definitely under way, and there is little doubt that sooner or later all of the states, or at least the great majority, will definitely organize their administrative branches on this basis.

The first state to act affirmatively was Illinois. As one of the results of an exceptionally thorough investigation of all phases of state administration by its Commission on Economy and Efficiency, Illinois, in 1917, adopted an administrative code providing for the grouping of all its purely administrative services in nine departments. This action was important in itself, since by it Illinois was given an exceptionally efficient administrative organization, but it has also served as a model for a number of other states. Thus Nebraska and Idaho in 1919 and Ohio and Washington in 1921 adopted administrative codes following closely that of Illinois, with the result that these five states now have well-developed departmental systems which, as regards their general principles and to a considerable extent as regards details, are nearly identical.

Other states which have taken steps to reorganize their administrative systems are Massachusetts in 1919, California in 1921, Maryland in 1922, Pennsylvania, Tennessee, and Vermont in 1923, Minnesota and South Dakota in 1925, and New York in 1926. In addition to these fourteen states that have taken action, a large number of others have provided for investigation of the subject, and action before long by them may be expected. It is hardly necessary to say that the departmental systems established vary widely in character and efficiency. The important thing is that this type of administrative organization is being generally accepted by the states and that a great improvement in the administrative organization of the states is being effected.

Before leaving this subject, it is important to note that this movement for the reorganization of the administrative systems of the states is intimately tied up with other proposals for reform; such as, the placing of the governor at the head of the administration through the provision that the heads of departments shall be appointed by him and hold office at his pleasure, and the conferring upon him of powers of general direction and control, the creation

of a service of general administration, and the adoption of a budget system. Incidentally, the movement tends to accomplish the purposes aimed at by the Short Ballot movement, since one of the features is to provide that purely administrative officer shall hold office by appointment rather than by election. In many cases, however, this end can be fully achieved only by the process of constitutional amendment, due to the fact that existing constitutional provisions require certain administrative officers to be selected by popular ballot.<sup>5</sup>

<sup>5</sup>The best general account of the movement for the reorganization of the administrative systems of the states is that of A. E. Buck, *Administrative Consolidation in State Governments*, National Municipal League Technical Pamphlet, Series No. 2, Third Edition 1924, and a supplement in 1925.

## CHAPTER VI

### INTERNAL ORGANIZATION OF ADMINISTRATIVE DEPARTMENTS

In the chapters immediately preceding we have considered the problem of the organization of the administrative branch of a government as a whole. We have seen that the fundamental principles that should find expression in such an organization are: first, the erection of the chief executive into the position of general manager through the vesting in him of the powers and responsibilities of that office, and the placing of all the purely administrative services under his general direction so that the line of authority will run from them to him and thorough him to the legislature instead of directly to the latter; second, the establishment of a service of general administration, analogous to that of the Treasury in the British Government, which, itself having no operative function, will serve as an organ through which the chief executive may effectively discharge his duties as general manager; and, third, the grouping of the several administrative services into departments in such a manner that all services whose operations fall in the same general field and which should maintain close working relations with each other are brought together under a common overhead direction.

This problem of the general organization of the administrative branch having been worked out, the next presented for solution is that of the character of organization that should be given to the several departments for which provision has been made.

It is in many respects analogous to that of the organization of the administrative branch of the government as a whole. Just as the administrative branch, under an integrated system of organization, is composed of a number of distinct departments, so each department is composed of a number of distinct services. It follows, therefore, that, just as the chief executive ought to exert a general overhead supervision of the departments and have a special organ through which to do so, so the head of each department should exercise a similar control over the several services embraced within his department and likewise have a special service for this purpose.

Though the nature of the problem of general administration here presented is similar to that presented in the case of the administrative branch as a whole, it nevertheless presents certain special phases that require independent consideration.

**Distinction between the Primary or Functional, and the Institutional or Housekeeping, Activities of Administrative Services.** To understand the special character of the problem of general administration as it confronts the head of a working department, it is necessary to appreciate the fundamental distinction that exists between what may be termed the primary, or functional and the institutional, or housekeeping, activities of government services, to which incidental allusion has already been made. Primary or functional activities are those which a service performs in order to accomplish the purpose for which it exists. Institutional or housekeeping activities, on the other hand, are those which it is necessary that a service shall perform in order that it may exist and operate as a service. An administrative service, thus in order that it may perform the primary duties for which it has been created and is being maintained, must provide itself with and maintain a plant; it must establish and operate a system for the recruitment, compensation, and general control of its personnel; it must perform the work entailed in contracting, purchasing, inspecting storing and issue of supplies; it must contain a system for the examination and settlement of claims, the keeping of accounts, and the rendition of reports that will accurately record and make known all of its financial transactions; and generally it must do all those things which relate to its own maintenance and operation as an institution as distinguished from those things which it does in the actual performance of the duties for which it exists. Primary activities are thus, an end in themselves; institutional activities are but a means to an end.

This distinction between the two classes of activities of an operating service is not merely one of interest; it goes to the very foundation of the problem of efficient administration. In the first place primary activities, being ends in themselves, are represented by a product in the form of work performed. The question of economy, in the sense of keeping the total expenditure down to the lowest possible amount, does not, therefore enter. As long as the returns received are proportionate to the expenditures made, it may be desirable to expand rather than to curtail operations. This is not true of institutional activities. Producing no return of direct value, it is desirable that every effort should be made to keep the expenses involved in their performance to the minimum.

Secondly, it is with the class of institutional activities that the problem of administration has chiefly to do. Though there is, of course, room for great differences in respect to the efficiency with which the primary activities of the government services are performed, the real efficiency with which such services are conducted centres almost wholly around the manner in which these purely institutional activities are carried on.

Finally, and of still greater significance from the standpoint of this study, these two classes of activities differ radically from each other in the fact that while, in the case of primary activities, the problems of organization and procedure are different for each kind of activity to be performed, in the case of institutional activities they are similar if not identical for all services. The problems of administration having to do with the latter are, in a word general throughout a department and to a considerable extent throughout the whole government. They constitute the real subject matter of administration, and the first step towards their consideration is a recognition of their special character.

**Need for Special Organization Units to Perform Institutional or Housekeeping Activities.** It follows from this clear distinction between the functional and housekeeping activities or government services that separate units of organization should be set up for their performance. This is desirable for a number of reasons. In the first place it is highly advisable that those officers who have responsibility for the performance of the technical or professional activities for the carrying on of which the services are maintained shall as far as possible be relieved of all duties and responsibilities not directly pertaining to such activities and thus be in a position to devote themselves exclusively to the latter. Moreover, it often happens that the head of a service, though highly competent in respect to his professional duties, may be deficient in respect to matters of purely business administration. This arises from the fact that such heads are, or should be, selected with special reference to their technical qualifications and that they are naturally interested primarily in their professional duties. Secondly, and more important still, institutional or housekeeping duties are in themselves of a highly special and technical character and, if they are to be efficiently performed, should be in charge of persons who have specialized in those fields and through study or experience, have become experts in reference to them.

**Jurisdiction of Special Organization Units for the Performance of Institutional Activities.** A second principle following from the special character of the housekeeping activities of government services is that, with rare exceptions, the jurisdiction of the special organization units having them in charge should extend to the entire department. To state this in another way, instead of each of the several services comprehended within a department having its own housekeeping organization units, there should be but one set of units to perform these duties for all the services. This is desirable in the interest of both efficiency and economy. It has been pointed out that a prime characteristic of household activities is that they are of substantially the same character for all services. A great economy can thus be secured by

having these activities performed by single departmental units instead of by a number. Especially is this so where a department is unifunctional in the sense that it embraces only services working in the same general field and consequently having business operations which are of the same general character. Again, it is highly desirable that the method employed in performing these activities shall, as far as possible, be standardized. This can be much more effectively secured where responsibility for their performance is concentrated in central services.

**Organization for the Performance of Institutional Activities in the National Government.** In general, the principles above laid down are more or less closely adhered to in the executive departments of the national government. In all of them are found offices, variously designated, such as those of chief clerk, superintendent of building, appointment clerk, disbursing officer, chief of division of mails and files, chief of division of supplies, chief of division of printing and publications, etc., having for their duties the performance of these activities. Though the need for special services of this kind is thus recognized in the national government, no consistent principle has been followed in respect to their designation, scope of functions, or distribution of duties among the several units. In some cases the chief clerk has charge of such matters as mails and files, care of buildings, etc., while in others special units of organization have been set up for such purposes. In some cases these units are subordinate units under the office of chief clerk, while in others they are independent of and co-ordinate in rank with that office. Again, in some cases the officers named are departmental units in the sense that they act for all services embraced under the department, while in other cases some of the several services have their independent units. Finally, a wide diversity exists in respect to the method made use of by these units in performing their duties.

**Proposed Standard Scheme of Organization Units for the Performance of Institutional Activities.** This lack of uniformity in respect to the provision made for the performance of this class of activities cannot but be deemed to be a defect in the existing organization and methods of work of the executive departments of the national government. As has been repeatedly pointed out, the leading characteristic of this class of activities is their similarity throughout the government. It is desirable, therefore, that a standard scheme of organization, unit designation, jurisdiction, scope of duties, and methods of procedure should be worked out and applied except where special conditions make out an affirmative case for departure from it. A study of the character of work to be done and conditions to be met shows that such a



scheme of organization should be substantially as follows. In each department provision should be made for the following units having jurisdiction over all the services of the department except in the few cases where practical considerations make it desirable that a service shall have its own independent units.

1. Office of Chief Clerk
2. Division of Mails and Files
3. Division of Personnel
4. Division of Supplies.
5. Division of Accounts
6. Division of Printing and Publications
7. Office of Superintendent of Building.

The duties pertaining to these several offices are in general sufficiently indicated by their names. A few remarks should, however, be made regarding one or two of them. At the present time the third unit mentioned, Division of Personnel, is usually known as Office of Appointment Clerk. It is believed that this designation is unsatisfactory, since this unit ought to attend many matters other than that of the appointment of employees. As will be elsewhere pointed out, a proper administration of personnel involves a number of important operations. Among these are: the maintenance of personnel records showing the service of all employees; the devising, installation, and operation of a system of efficiency ratings; the investigation of complaints or charges against employees; the administration of the system of promotions, demotions, and transfers; the conduct of examinations to determine promotions, etc. The administration of all these matters should belong to the Division of Personnel. It should accordingly have a designation that will adequately indicate the scope of its duties.

In like manner the unit having charge of the finances of the department is usually designated as office of Disbursing Clerk. Here, too, the duties properly pertaining to that office are much broader than that of merely making disbursements. If efficiency in operation is to be secured and if the head of the department is to be in a position where he can currently keep himself informed regarding the operations of the services under his directions and exercise a control over them, provision must be made for an accounting system that will show all financial transactions properly classified and presented in their relations to each other and the work undertaken or accomplished. The Division of Accounts should be the service having charge of these matters. As the central accounting service for the department, it should have a designation making known the full scope of its responsibilities.

Before leaving this subject it will be noted that in designating these several units use has been made of the term "division."

would be unfortunate to designate any of them "bureaus," since it is thought that this term should be reserved to designate the primary functional services of the departments, and because, as will now be pointed out it is believed that these several units should be made the subordinate units of a superior service to be known as Bureau of General Administration.

**Need for a Bureau of Administration in Each Department.** Though the housekeeping activities of a department embrace a number of distinct categories of work, for the performance of which separate units of organization should be provided, all are concerned with the operation of the department and its several functional bureaus as institutions. They, thus, constitute a distinct group of responsibilities and one that in a peculiarly direct way has to do with problems of administration strictly construed and with the efficiency and economy of the department and its functional services. Recognition of this fact, it is believed, leads inevitably to the conclusion that it is desirable that these several housekeeping organization units should be grouped together as subordinate units of a single departmental bureau of administration. A system of organization such as this would mean that there will be in each department a single service presided over by an officer of high rank, having direct responsibility for the performance of this distinct category of administrative duties, and constituting in effect the general or business manager of the department. Responsibility for administrative efficiency will, under this plan be definitely located. If administrative organization and methods are archaic, wasteful, faulty, the blame will be his; if they are up to date, economical, and corresponding to approved principles of business management, to him will accrue the credit. Making provision for such an officer, moreover, will lay the basis for the establishment of uniformity and standardization in respect to the performance of these business activities throughout the government service. It will be a matter of comparative ease for these business managers to get together, under the auspices of the director of the bureau of general administration for the government as a whole for the consideration of the problems in which all are commonly interested. A further advantage of this scheme of organization is that it will, automatically, as it were, bring out expense involved in carrying on these activities. It will thus facilitate greatly the problem of preparing budgetary estimates and of Congress in passing upon these estimates. If uniformly applied in all the departments, it will permit of comparison of purely administrative costs than can be equally well secured in no other way. The fact that this comparison can be readily made will in itself furnish a powerful motive for the several departments to perfect their methods in order that their showings in comparison with each other may be favourable.

**The First Assistant Secretary as the Head of the Bureau of Administration.** Another important feature of this system of organization is that the official placed in charge of this bureau should be First Assistant Secretary. If this is done each department will be given an officer corresponding in status and duties to the Permanent Under Secretary of the administrative departments of the British Government, a feature of the British governmental system which has won the universal commendation of students of that government. As the duties of these officers will be wholly in the field of technical business operations and thus have no political character, it is to be presumed that the persons selected for this office will be chosen wholly with reference to their special qualifications for the work and that they will hold office independent of changes in administration. Even did the law providing for such offices definitely establish such requirements, practice would inevitably do so. The new political head of a department would in general be only too anxious to retain the services of one already familiar with the organization and administrative methods of the department to be directed by him. Normally, the office would probably be filled by promotion of one of the division chiefs in the bureau.

Before leaving this subject it is important to make clear why the head of the department cannot himself directly perform this function of business manager. The reasons for this are analogous to those which prevent the President from personally attending to the details of administrative control and require that he should have a special service to act as his executing agency in respect to such duties. As is well known the heads of departments, like the President, are not selected solely, and often not even primarily with, reference to their qualifications as administrative officers. They are the chief political advisers of the President. As much, if not greater weight is given to their qualifications as members of the President's Cabinet as to their special qualifications for the administration of the departments of which they are placed in charge. Furthermore, their tenure of office is temporary, since, normally, they will go out of office with the President by whom they have been appointed. In practically all cases they will also take office with little or no knowledge of the organization, personnel, duties, or methods of procedure of the services to be under their direction. Their interests, quite properly, will be primarily in the primary duties of the services rather than their institutional activities. Under these conditions not only will a great increase in efficiency result from having all these business duties centred in a single, highly integrated, and co-ordinated service, presided over by a permanent officer of special competence, but the Secretary himself will be in a position effectively to devote himself to the larger questions of general policy that constitute his chief responsibility.

Though the proposal for the creation in each department of a bureau of administration to be presided over by the First Assistant Secretary, and to have direct charge of the purely housekeeping activities of the departments has never been made with quite the same definiteness as above, it is of interest to note that various secretaries of departments have in the past pointed out in their annual reports the need for an office and officer corresponding closely the one here proposed. Thus the Civil Service Commission, in its report for 1910, in speaking of assistant secretaries, said:

Their tenure is dependent largely upon changes in the National administration, and the uncertainty resulting therefrom operates against a continuity of policy in the general administration of the Department. One Assistant Secretary in each of the Departments should be a permanent official of tried executive ability and long experience, not in mere desk or division work but in the general administration of the department.

For several years the Postmaster General has called the attention of Congress to the desirability of the appointment of a permanent Deputy Postmaster General or Director of the Posts with a salary of not less than \$10,000, who should be the ranking officer to the Postmaster General's assistants, and whose duties would be those of a general manager of the postal service. Such an officer, if of tried executive capacity and long experience in postal matters, would, in the opinion of the Postmaster General, ensure that continuity of the policy of the department which is necessary in bringing about the best results to the service, whose methods are lacking in economy and directness and whose organization and system, while at one time satisfactory, are now out of date and inadequate to the present increased requirements. Such an officer would also relieve the head of the department of innumerable duties which now consume a large portion of his time and preclude the proper consideration of important questions of general policy developed in our own and foreign postal administration.<sup>1</sup>

In his report for 1907 the Secretary of the Interior refers to a plan for the reorganization of the Department of the Interior, presented to Congress, which he describes as follows:

The plan in brief is to create the positions of two under secretaries in the classified service and to abolish the position of chief clerks, an office which is no longer required. The two under secretaries, with the Private Secretary, would constitute an administrative committee to be charged -

with all merely administrative matters. These officers would relieve the Secretary and the two Assistant Secretaries from detail work which now occupies a large portion of their time, and make it possible for them to devote their energy and thought to the problems and policies with which the Department and its officers have to deal.

**Status and Duties of Assistant Secretaries of Departments Other than the First Assistant Secretary.** In the section immediately preceding it has been urged that a fundamental change be made in the status and duties of the First Assistant Secretaries of the executive departments of the national government. In the present section is raised the question of the desirability of making an equally important change in respect to the status and character of duties of the remaining assistant secretaries.

A study of the laws providing for the organization of the executive departments and of the practice that have grown up under these laws, shows that no consistent principle has been developed in respect to the character of responsibilities and duties that should be imposed upon these officers. From the legislative standpoint Congress has contented itself with making provision for these officers and leaving to the heads of departments discretion in respect to the determination of the specific use that shall be made of them in the actual conduct of the affairs of their departments. It has resulted from this that, not only is there a great diversity of practice in respect to this matter as between the departments, but also a diversity within the same department at different times as different secretaries may have varying ideas regarding the organization of the department for the performance of its work.

Considering the departments at any one time, three distinct policies in respect to the utilization of the services of these offices may be distinguished. In some departments, such as those of the Navy, Agriculture, Commerce, and Labour, provision has been made for a single assistant secretary. In these cases, the theory followed is that this officer will be direct assistant of the secretary for all purposes. In other cases, where provision has been made for a number of assistant secretaries, the policy adopted by the head of the department has been that of assigning to each assistant secretary responsibility for exercising a general supervision or control over certain of the specific services constituting the primary organization units of the department or certain of the specific duties of the department. The best example of this principle of organization is afforded by the Treasury Department. Still a third type of organization is that of the Post Office Department, where the assistant heads, that is, the assistant postmaster generals are given not merely the general supervision of certain services, but also the

direct administration of the affairs of those services. Their offices, thus, constitute the primary organization units of the departments, analogous in almost all respects to the functional bureaus of the other departments.

For purposes of present study interest attaches to the relative merits of the last two types of organization. With respect to this matter the position is here taken that the principle of organization adopted by the Post Office Department is the correct one and should be followed in all cases. To state this in another way, it is believed that the principle should be followed throughout the executive departments of making assistant secretaries the direct administrative heads of the several services constituting the primary units of organization of the departments. In the case of the Treasury Department this would mean that there would be an assistant secretary in-charge of the Bureau of Customs, an assistant secretary in-charge of the Bureau of Internal Revenue, and so on. The advantages of this rather radical change in existing practices can it is believed, be readily demonstrated,

Using the Treasury Department as a concrete example, it will be noted that, under the existing system, each operating service is subject to the overhead direction and control of two, and, if the Secretary himself is considered, of three, offices—the chief of the bureau, the assistant secretary in charge of that bureau, and the Secretary of the department. It is submitted that this multiplicity of officers having general responsibility for the conduct of the affairs of a service not only serves no useful purpose, but is also productive of a number of positive evils. In the first place it necessitates a large number of general offices than is required. The consolidation of the two offices of chief of bureau and assistant secretary will mean the elimination of one of these offices. Where an assistant secretary now has charge of a number of bureaus it will, of course, mean the elimination of only one out of the total number. The total number of offices eliminated will only correspond to the total number of existing assistant secretaries.

Secondly, the present system under which responsibility for the conduct of the affairs of a bureau is divided among two officers—the bureau chief and the assistant secretary in charge—will be changed to one where responsibility will be definitely located in a single officer. Such a concentration of authority and responsibility is always desirable where feasible of attainment. Did the assistant secretary under the existing system perform any really useful function from the standpoint of overhead administration and control, something might be said in favour of the system now in force. A study of the manner in which this system actually operates in practice does not lead one to maintain this contention. Only in exceptional cases do the assistant secretaries have the special

knowledge or experience rendering them competent to pass upon the many technical questions arising in the conduct of the services under their direction. For the most part, political considerations have been prominent, if not controlling, in respect to their selection. With rare exceptions they change with each change in the administration. Under these conditions it is difficult for them to make any really valuable contribution to the administration of the affairs of the services under their general supervision. This, however, is not all the story. The fact that they do have a general responsibility in respect to these services and that their rank and authority are superior to those of the bureau chiefs makes it inevitable, on the one hand, that they should seek to exert an influence on the manner in which the affairs of the bureaus are conducted, and on the other, that they must be consulted and their approval, in many cases, secured by the bureau chiefs before any action of importance is taken. This, as has been pointed out, divides responsibility and acts as a drag upon the whole administrative procedure.

If the supervision exercised by the assistant secretary is merely nominal, the head of the service is deprived of that public recognition of his complete responsibility for results which should be at once his chief reward and the chief assurance of his continued efficiency and zeal. If the departmental head on the contrary, attempts, as he sometimes does, to exercise a real and active control over operations, and by virtue not of a superior knowledge or experience but merely of superior official position, to substitute his own judgment for that of the operating head, the result is most likely to be a marked reduction or even paralysis of the initiative of the operating head and a loss of enthusiasm and zeal for results. In short, an arrangement of this kind can have no possible beneficial results and is bound to have harmful consequences of greater or less degree, besides invariably resulting in delay and useless administrative routine.

Unless there exists a clear and positive reason, therefore, superior direction and control of this kind should not be superimposed upon a service performing essentially independent functions. Such would seem to be the plain dictates of administrative experience. When there is imposed upon the actual operating personnel entrusted with any function, an overhead administration which has no positive contribution to make to the ultimate result, but the only possible function of which is to substitute its own opinion for the opinion of the operating personnel or internal questions of operation, there is incurred additional expense and delay without any compensating result. This is the case no matter how completely an overhead administrator accepts without question the judgments of the operating head for unless the personnel of the overhead administration is to be absolutely idle—and overhead administrations have a pecu-

liar propensity for accumulating personnel which requires employment—there must always be a certain quantity of administrative acts which are required by practice to receive the *pro forma* approval of the administrative overhead.

Those who have had practical experience with the conduct of administrative affairs at Washington know that responsibility for delay in the dispatch of public business is to be found chiefly on the desks of the directing personnel. Not only specific cases but whole classes of cases are held up pending action by these officers. In a large number of cases this delay is caused by the necessity for securing the approval of the departmental officer, the assistant secretary, for action which the bureau chief desires to take. Furthermore, the necessity that these officers are now under, of explaining to assistant secretaries their plans and proposals and in many cases of getting their approval to contemplated action, makes a not inconsiderable draft upon their time and energies. It is recognized that there are cases where this overhead control results in preventing unwise action. This, however, is far more than offset by the cases where the judgment of the technically competent and immediately responsible officer is unwisely overruled and by the constant slowing down of administrative action that results from the system.

Finally, it is to be noted that the principle of organization here recommended corresponds to the one followed by most efficiently organized and run private corporations. More and more these bodies are adopting the policy of providing for a large number of Vice-presidents, each of whom has direct charge of one of the distinct branches of the operations of the undertakings. For example, many railway corporations have a Vice-president in charge of construction and maintenance, another on operations, another on finance, etc. In adopting this system the national government would be only following the most approved practice in private undertakings whose operations are on a scale commensurate with those of the national government.

**The Office of Under Secretary or Assistant to the Secretary.** It may be objected that if the foregoing principle of making the First Assistant Secretary the business manager of the department and the other assistant secretaries the directing heads of operating service is adopted, the Secretary will have no general officer to assist him in meeting his general responsibilities as head of the department. This might be so but for the fact that within very recent years Congress has adopted the policy of giving to the departments an officer known as "Under Secretary" or "Assistant to the Secretary." Provision for such an officer has been made for the departments of the Treasury, Justice, Interior, Agriculture, Com-



merce, and Labour. This officer, having no specific duties assigned to him, can, or should, act as the direct personal aid to the Secretary. His position may be defined as that of a glorified private secretary; in a word, one similar to that which the private secretary to the President occupies towards that officer. He and his staff, composed of private secretaries, confidential clerks, etc., can relieve the Secretary of many of his duties. Having as he does a peculiarly personal and intimate relation to the Secretary, it is to be presumed that he will be the personal selection of the latter and normally will change with each new Secretary.

## CHAPTER VII

### ORGANIZATION OF OPERATING SERVICES: THE BUREAU AND BOARD OR COMMISSION TYPES OF ORGANIZATION

In considering the problem of the organization of administrative services departmentally we have had to do with questions whose characteristics are that they relate primarily to matters of general overhead administration and to a large extent are of more or less general application. In passing to the problem of the organization of services having direct charge of the performance of specific activities, which are here given the general name of operating services, we are confronted with questions of quite a different order. This arises from the fact that these services have to do not so much with matters of general control as with the direct performance of work; and, furthermore, that generally speaking the nature of such work differs with each service. Since it is manifestly desirable that each operating service should be organized with special reference to the work to be performed by it, it follows that, from the technical standpoint at least, the problem of the organization of each service is more or less a special one. Though this is so, there are, however, certain general considerations which should be borne in mind in the organization of any such service, and it is the purpose of the present chapter to call attention to and comment upon such factors.

**Bureau versus the Board or Commission Type of Organization.** The first question to be answered in organizing an operating service of a government is that of the general character that shall be given to it from the standpoint of the location of responsibility for direction and control. In practice this means reaching a decision as to whether such responsibility shall be vested in a single individual or in a number of persons exercising authority jointly. If the former policy is adopted there is brought into existence a form of organization to which may be given the general name of "bureau"; if the latter, a form of organization sometimes known as a "board" and sometimes as a "commission."

Examination of the operating services of our government, national, state, and local, shows that both of these types of organization are employed. It, thus, becomes a matter of importance to determine, if possible, the conditions under which one or the other of these two types of organizations should be employed. Fortunately the principle that should be followed in answering this question is clear and easy of statement. In general it may be laid down as a canon of correct administrative practice that where the

work to be done is essentially of an administrative character, that is, one calling for the direct performance of work, the bureau type of organization should be adopted. Throughout private industry and in governments as well, experience has demonstrated that a prime essential of efficient operation is the definite location of administrative authority in the hands of a single individual rather than the division of such authority among a number of persons. Another objection to the board or commission type of organization for an administrative service, is the greater cost. This added cost is only partly due to the necessity of paying the salaries of a number instead of a single directing officer. In many if not all cases each member of the board or commission is given his own quarters, which may include a suite of rooms, his own secretary, messengers, etc. Expenditures for these purposes will certainly equal and in most cases exceed that for the salaries proper of the board or commission members. And in other ways the general cost of overhead administration is increased.

If, on the other hand, the duties to be performed by a service are not primarily of an administrative character, but ones involving the exercise of discretion on an important scale in the formulation and adoption of policies, in the drafting of rules and regulations having the force of law and affecting private rights, and in the adjudication of claims, grounds exist for the adoption of the board or commission type of organization. This results from the fact that where action of this character has to be taken, not only is the feeling strong that it is unwise to vest such powers in a single individual, but there is also strong ground for believing that the collective judgment of a number of persons is likely to be superior to that of a single individual.

The principle here stated can be made clearer by indicating some of the more specific services of governments which in conformity with such principle should be given the board or commission form of organization.

First in importance should be mentioned those services whose duties are of a quasi-legislative or quasi-judicial character. Leading examples of such services are public utility commissions. These bodies have two prime functions: to formulate rules and regulations having the force of law in determining the rates and conditions of service of public utility corporations; and to pass upon issues affecting public and private rights arising under such rules and regulations, or the statutes authorizing the formulation and promulgation of such rules and regulations and otherwise determining the conditions to be observed by public utility corporations in their operations. In the performance of the first of these functions these bodies exercise duties of a quasi-legislative character, in that they

act as the agents of legislative bodies to do for them what they might themselves do directly. In the performance of the second they sit practically as quasi-judicial tribunals for the hearing of causes in the first instance and the rendering of decisions. In most cases the decisions thus arrived at are subject to review, as regards matters of law at least, by the regularly constituted court. It needs but the foregoing description of the duties of such bodies to make it clear that they are of a character rendering it desirable that they should be performed by a general board or commission rather than by a single individual exercising powers of an autocratic character. The national government has, thus, adopted the correct principle in providing for the regulation and control of corporations engaged in interstate commerce through its three commissions or boards, the Interstate Commerce Commission, the Shipping Board, and the Federal Trade Commission. The individual states have also been wise in adopting the same type of organization for the regulation of public utility corporations operating within their respective state.

Other important examples of the policy of delegating to a subordinate agency the function of formulating and promulgating rules and regulations having the force of law, are furnished by the very general practice which has been followed of delegating to such agencies the formulation and promulgation of rules and regulations for the administration of the public health, public education, and police administration laws. In both states and municipalities the practice has been widespread of vesting such authority in boards of health, boards of education, and police boards. This practice is in strict conformity with the principle that has been laid down. As will be later pointed out, however, the states and municipalities, in providing for these agencies, have failed to draw the distinction between those duties which are of a general policy-determining, quasi-legislative, and quasi-judicial character, and those which are of an administrative nature, strictly speaking, and have made the mistake of vesting in these boards and commissions duties of the second as well as of the first character. As will later be shown, the result has been to set up administrative systems which are defective and have given bad results in practice.

A second class of services where the board or commission type of organization is desirable is furnished by those services whose duties call for the exercise of wide discretionary powers or are of a general control character. Examples of such services in the national government are the Federal Reserve Board and the Civil Service Commission. The former of these boards, as is well known, has the function of exercising a general oversight of and control over the operation of the system of federal reserve banks. Its action is often of the most far-reaching character and affect:

vitality not only the operation of these banks but also the general commercial and industrial interest of the country. In view of this, it is the part of wisdom that the decisions taken shall represent the collective judgment of a number rather than a single administrative officer. The second service has the duty not only of formulating general rules and regulations for the approval of the President to govern the civil service system of the national government but also of making investigations and of reporting upon cases where in its opinion the laws and regulations governing civil service matters are not properly enforced. Here, too, there is justification for the adoption of the board or commission type of organization.

A third example of the use of the board or commission form of organization is that in which it is desirable to have a number of different interests represented. The most important examples of such services are the boards of arbitration and conciliation which have been created by both the national and state governments for the adjustment of labour disputes. A usual provision of the laws creating such boards is that they shall include among their members representatives of labour, employers, and the general public. The board or commission type of organization is also justified in these cases by the fact that their functions are of a quasi-judicial character.

A fourth example of resort to the board or commission type of organization, but which, as will be seen, is less defensible, is offered by those cases where the attempt has been made to eliminate, or to reduce to a minimum, the factor of party politics in the conduct of the affairs of certain services. To secure this end, provision is made that directing authority shall be vested in a board or commission, the members of which shall be selected from among adherents of the major political parties. To further ensure non-partisanship in the performance of duties it is usual to provide that the term of office shall be longer than that of the appointing power and that the terms of the several members shall terminate at different dates, thus making it impossible for the same appointing officer to control the composition of the entire board or commission.

In the national government the chief instance where the desire to secure a non-partisan conduct of affairs has led to the adoption of the board or commission form of organization is furnished by the Tariff Commission. One of the purposes in establishing this service was to secure a non-partisan study of the factors entering into the tariff problem. To this end the law provides that the work should be entrusted to a board the members of which should not all be drawn from the same political party. This factor is also recognized in the case of services given the board or commission form of organization for other reasons. The laws creating

the Civil Service Commission, the Interstate Commerce Commission, the Shipping Board, the Federal Trade Commission, the Federal Reserve Board, provide that the members shall not all be taken from the same political party.

In state and municipal governments the leading example of the use of the board or commission type of organization with a view to the elimination of partisan politics from the administration is that of vesting the administration of the police service in a body of this character.

In the case of the national government the object sought, that of the elimination of partisan politics from the operations of the services involved, has in general, been obtained. In the case of the states and municipalities, failure has been the general rule. The extent to which this has been so and the reasons therefor, are excellently brought out by Mr. Raymond B. Fosdick, in his study of police administration in the United States. On this point he says:<sup>1</sup>

The state controlled board was ostensibly a method for taking the police department out of politics. Another method, devised for the same end and applied like to state and municipal boards, was the so-called bi-partisan principle. This principle was instituted, as we have seen, in New York in 1864 when the state board of police was increased from three members to four members on the understanding that two should be appointed from the Republican party and two from Democratic. . . . Upon the recommendation of the Lexow Commission in 1895, however, the bi-partisan theory was written into law, remaining in effect until the present single commissioner system was adopted in 1901

The bi-partisan principle was eagerly adopted throughout the country wherever the board form of control was in force. Based upon the theory that politics can never be eliminated from the management of the police department it was adopted as a fair and practical arrangement of minimizing the effects of politics by setting one partisan administrator to watch another. The fact that the machinery of elections was largely under the jurisdiction of the police gave the argument for the bi-partisan system additional force. It was hoped that natural distrust of each other by the different party representatives on the board would breed vigilance fatal to the political maneuvering of any one of them, and that from this condition a genuinely non-partisan management of the force could be secured. . . .

<sup>1</sup> Raymond B. Fosdick, *American Police Systems*, Publications of the Bureau of Social Hygiene. The Century Co., New York, 1920, pp. 103-107.

Upon this theory, therefore, the bi-partisan principle was widely adopted—at first in the form of a tacit understanding not recognized by law as in New York and Baltimore, but later written into the law itself. (A list of cities adopting the system with date of adoption follows.)...

The bi-partisan principle proved in most cases an unsuccessful experiment. Indeed the theory that the police administrators are to be selected not on the grounds of fitness but because they are party favourites had far-reaching and often disastrous consequences. Under this system the boards were composed of extreme and often unscrupulous representatives, chosen equally from the two dominant parties and subservient to the bosses to whom they owed their appointments. Representing on the board not the public but their political organizations they were regarded as under obligations to gain for their parties all possible advantages in the way of patronage and power. . . .

The bi-partisan board failed in its principal object. It aimed to eliminate politics by taking the police department out of the hands of a single party; it actually strengthened the grip of politics on the department by turning it over to the keeping of both parties. Instead of a non-partisan administration it resulted in a pooling of interests and spoils by the party representatives on the board and a subsequent division highly advantageous to both political organizations. In many cases the commissioners did not hesitate to combine against public interests for party gain. For years in New York under the bi-partisan system appointments and promotions were officially "credited" to the commissioners responsible for them and no one commissioner was allowed to have more than his share. The glamour of justice about the arrangement hid its vicious aspect and concealed the obvious truth that there is essentially no Republican way and no Democratic way of managing a police department.

The bi-partisan plan police control has been largely discarded throughout the United States. New York, Boston, Cleveland, Toledo, Cincinnati, Minneapolis, Buffalo, Albany and Omaha have all relinquished it, and at the present time it is retained in only four of the large cities., Baltimore, San Francisco, Milwaukee and Indianapolis.

The reason for success in the case of the national government and failure in that of the states and municipalities in the attempt to eliminate politics through the use of the board or commission type of organization is not difficult to see. In the first place the national

government services that have been mentioned are of a general control and research character rather than ones having administrative duties strictly speaking. In the case of the state and municipal police boards, on the other hand, the mistake has been made of entrusting to them not merely quasi-legislative and quasi-judicial functions but administrative duties as well. This is a point that will receive further consideration later on. Secondly, not only are the evils of political partisanship much less in evidence in the national than in the state and municipal governments, but the services of the former are much better protected against political pressure through civil service laws and regulations.

Other important fields of governmental activities in which use has very generally been made of the board or commission type of organization are: the promotion and protection of the public health, the promotion of public education and the care of the defective, dependent, and delinquent classes. The motive for making use of this type of organization in these cases have been mixed ones. In the first place they represent a desire to take the care of these matters away from the general government of the state and cities and to vest it in special bodies. This is due partly to the wish to remove those services from political influence and partly to a distrust of the regular governmental machinery. In some cases the boards and commissions that have been set up are in effect independent or quasi-independent governmental corporations responsible directly to the legislative branch for the manner in which they perform their duties. In other cases they are, as regards certain classes of their duties independent and as regards others, a sub-division of the general government of the state or city. Secondly, as collateral to this motive has been that of making use of the volunteer or at least unremunerated services of private individuals. In not a few cases the boards of education, public health, or charities and corrections, as the case may be, are composed of non-salaried private individuals, who are expected to give only a part of their time to the work of the boards of which they are members.

It is difficult to pass any general judgment on the desirability of making use of the board or commission form of organization in these cases. Much depends on the conditions to be met, the precise character of the powers and duties conferred upon these boards, and the nature of the relationship that is established between them and the general governmental organization. The best that can be done is to make certain general observations which it is believed should receive consideration in the handling of its problem.

Personally, the writer questions very much the desirability of the policy of relieving the general government of full and complete responsibility for the administration of the affairs to which these



boards relate. He sees no adequate reason why the performance of these activities should not be vested in departments of education, public health, and charities and corrections in the same way that the performance of other activities are entrusted to departments of the general government. There is always a disadvantage in having a multiplicity of governing bodies. If it is desired to take these services from under political considerations, the way to do so is to perfect the organization and methods of operation of the general government from this standpoint. If it is desired to secure the collective judgment of a body of men having special competence and whose whole-time services cannot be secured as permanent officers of the government, in respect to the determination of general policies, the formulation of rules and regulations having the force of law, and adjudication of personal disputes of charges of misconduct, the way to do is to provide for a special board with these functions alone and having the status of a branch or sub-division of an administrative department.

Secondly, if provision is made for a board of education, public health, or charities and corrections, care should be taken to vest in them no powers or duties of administration. Their functions should be wholly those of the formulation of general policies, the formulation and promulgation of rules and regulations in conformity with which the administrative services should carry on their work, and the trial of specific issues coming before them for adjudication. This requirement is one that is of such importance that it is made the subject of special treatment in the section that follows.

**Combination of Board or Commission and Bureau Type of Organization.** The foregoing discussion has in general been based on the assumption that it is possible to divide the administrative services of the government into two distinct classes; those which call for administrative work strictly speaking, and those calling for the exercise of quasi-legislative, quasi-judicial, or general policy determining functions; and that, on the basis of this distinction services should be organized either as bureaus or as boards or commissions. In point of fact the problem is not as simple as this. There are a number of branches of administration where the duties to be performed fall in both fields. The leading examples have already been mentioned in connection with the consideration of other aspects of the question under consideration. They are those of public health, public education, charities and correction, and police. As has been pointed out, the legislative branches of the states and municipalities have very generally pursued the policy of delegating to subordinate agencies the formulation of rules and regulations having the force of law to govern matters in these fields and of entrusting to these agencies the adjudication of certain matters arising in connection with work in these fields.

The work of the government in these fields is not, however, confined to the formulation and promulgation of such rules and regulations and to the decision of issues arising under them. It goes far beyond this, and involves the performance of a large amount of work of a purely administrative character in the way of the actual administration of school systems, the conduct of purely administrative systems for the promotion and protection of the public health, and in the actual operation of a police force. It is evident, therefore that the problem that is presented is that of making provision for a service or services that will exercise these two classes of duties in an harmonious way.

The problem is usually met by the government making provision for two authorities, a board or commission and an executive officer known as superintendent of schools, superintendent of public health, chief of police, or some analogous title. When this is done the important question is raised of determining the relative jurisdiction of these two authorities and their relations to each other. One method of procedure is to make the two offices independent and co-ordinate. Another method is that of vesting all authority in the first instance in the board or commission and making the executive officer its executive secretary or administrative officer, to have charge under its general direction of the execution of its determinations.

Whichever of these methods is employed, it is of importance that the powers and duties of the two be clearly distinguished along the lines indicated. To state this in definite terms, it is imperative if efficient administration is to be secured, that the board or commission be granted no administrative authority; that all such authority be vested in the executive officer to the end that he may be held absolutely responsible for the actual conduct of affairs. It is probable that no branch of public administration has given more trouble and has been more inefficiently conducted than the fields of administration under discussion. This has been almost wholly due to the failure of governments in setting up organizations for work in these fields to observe this fundamental principle. This has been so well brought out as regards one of these fields, that of police administration, in the work of Mr. Fosdick already quoted from, that we feel justified in reproducing at length what the author there says regarding the evils that have followed from vesting administrative authority in a police board or commission.<sup>2</sup>

The origin of this novel experiment (the independent administrative board) particularly in its relation to police organization, cannot be exactly determined. School boards and poor relief boards had existed prior to this period and

<sup>2</sup>*Ibid.*, pp 77—80, 107—109.

it is possible that the new movement was merely a wider application. It is quite possible too that the English municipal reform bill of 1835 with its provision for "watch committees" of the local council, may have suggested a special board of police administrators. Again it may be that the old council committee, which for years had been practically responsible for the police, was the pattern for the new form of control. Apparently the earliest reference to such an arrangement was contained in an ordinance proposed in New York in 1844, to effect a reorganization of the police department. This ordinance, which subsequently failed of passage provided for a "board of police" consisting of the superintendent, the two sub-superintendents and the four directors, one for each of the subdivision districts. The board was charged with general administrative functions. Somewhat similar arrangements were carried through in Philadelphia in 1850, when under the police act of that year the marshal and the several lieutenants formed a board of police to "make such useful rules and regulations as may be required and to keep a chief police station in the City of Philadelphia". Later in the same year another act was passed providing that the police board should consist of the marshal of police and the presidents of the respective town boards of the communities within the police district.

This arrangement was copied in New York in 1853. An administrative body was created called the "board of police commissioners" consisting of the mayor, the recorder and the city judge. Apart from the fact that the chief of police was selected by the mayor, with the board's approval, the board had full powers of appointment and dismissal of all members of the force and was charged with general administrative duties. Thereafter for forty-eight years the police department of New York was in the hands of some form of police board.

As the example set by New York in 1844 of consolidating the day and night police under a single head had been followed by all the large cities in the country, so now the Philadelphia board of 1850 and the New York board of 1853 became the general patterns which many communities took pains to copy, although the idea was subjected to endless modification. New Orleans adopted the plan in 1853, creating a board consisting of the mayor and the recorders of the city. Cincinnati adopted it in 1859 providing for a board of four appointed by the mayor, the police judge and the city auditor. In the same year San Francisco established a board of three consisting of the police judge, the

president of the board of supervisors and the chief of police serving *ex officio*. Detroit's board was established in 1861, made up of the mayor and two persons appointed by the common council. Boards were established in St. Louis and Kansas City in 1861, in Buffalo and Cleveland in 1866, in Richmond, Atlanta and other southern cities in the decade beginning 1870. In the years that followed, with the exceptions of Philadelphia, there was hardly an important city in the country but that experimented in some fashion or other with a police board.

The modifications of the plan were of an infinite variety. Boards were made up of local officers serving *ex officio* or of outsiders. They ranged in size from boards of two, as in Cleveland, to boards of twelve as in Atlanta. They were chosen by popular elections by district elections, and by appointment at the hands of mayors, governors, judges, or groups of officials. Occasionally the law named the specific persons to serve on the board, as in New York in 1864 and Detroit in 1865. In political complexion, boards were partisan, non-partisan and bi-partisan. In some cases they constituted an integral part of the city government, rising and falling with an administration; in other cases they were independent of any municipal official or their terms of office were not coincident with an existing political regime. The powers of the boards ranged from mere advisory duties to absolute authority. In some cities these powers were measured by the responsibilities imposed; in others, full responsibility was exacted, while powers were shared with different branches of the municipal government.

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The abandonment of the bi-partisan system of control, which we have discussed in a preceding section, was due not alone to the glaring weaknesses which it developed. The whole plan of administrative control through special boards fell gradually into disuse and bi-partisan principle as a phase or outgrowth of that system shared the same fate.

The conception of a multiple-head executive, to which the board method of management easily lends itself, was foredoomed to failure. In its attempt to make a group of people jointly answerable for the supervision of exacting details of administration, it violates the cardinal principle of effective control. Ultimate executive responsibility is not readily divisible among officers of equal rank and authority, nor can the burden of leadership be distributed among a group. This is the point of weakness in the board

plan as related to municipal enterprise. Resulting from a confused attempt to apply legislative analogies to executive functions, it fails to develop the responsible leadership essential to successful management. Divided in its counsels, decentralized in its authority, with no unity of policy or solidarity of action it has gradually given place to a more effective method of control.

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The growing belief in the effectiveness of a single-headed leadership has gradually undermined the board system of management in American police departments. In only 14 of the 52 cities over 100,000 population which at one time had the board form of police control does that form exist at the present time. In all other cases the one-man control system has been substituted, generally in the shape of a commissioner or chief appointed by local authority, or, in the case of commission-governed cities, elected by the people. New York and Detroit abolished their police boards and adopted the one commissioner plan in 1901, Boston in 1906. Cleveland in 1908, Cincinnati in 1908, Birmingham, Alabama, in 1911, Omaha in 1912, St. Paul in 1914, Buffalo in 1916. Philadelphia as we have already seen is the one large city which, with the exception of a non-descript type of board from 1850 to 1854, has consistently clung to the principle of single-headed leadership in the management of her police department. A similar plan of control has been maintained in Chicago since the adoption of the present charter in 1875.

It so happened that the present writer, while Secretary of Porto Rico and member of the upper chamber of the Legislative Assembly of that Island, had this concrete problem of providing for a system of police administration to meet. The Island had an insular police system, in which use was made of both a police commission and a chief of police. This system worked very badly, and it fell to his lot to formulate and put through the legislature a new police law. Study of the situation made it evident that responsibility for existing evils was wholly due to the fact that administrative responsibility was divided between the board and the chief of police. The new law corrected this. The board was made responsible for the framing of the police rules and regulations and for the hearing of charges brought against commissioned officers of the force. It was, however, given absolutely no authority in respect to the actual administration of police affairs. Such responsibility was wholly vested in the chief of police. In practical operation the law immediately cleared up the situation and has worked with complete satisfaction. The experience of Porto Rico, thus, furnishes a practical demonstration of the soundness of the position here taken.

In no branch of public administration has this failure to distinguish clearly between functions which are of a policy-determining, quasi-legislative, and quasi-judicial character and those which are purely administrative and, on the basis of this, to determine the responsibilities and duties of the board and the administrative officer, been more in evidence and productive of more harm than in that of school administration. Almost without exception friction between these authorities has resulted from this cause. This situation, and the steps that should be taken to correct it, have been so well set forth by a former United States Commissioner of Education that we feel justified in quoting from it at some length.<sup>3</sup>

After calling attention to the evils resulting from the extent to which school boards were selected for political reasons and in their acts were influenced by political considerations, the Commissioner continues:

They (the school boards) in turn interfered, both as boards and as individuals, without any sound principles of administration, with the duties of the superintendent of schools and his assistants. . . . Boards too large to function effectively as a whole, were subdivided into many standing and special committees which attempted to do, but ineffectively and wastefully, a wide range of things that should have been left wholly to the superintendent and his assistants. . . . Sometimes there was actual antagonism between the board and the superintendent of schools, or at least a total lack of any feeling of authority on the one side or of responsibility on the other. Frequently the superintendent could not be held responsible for the work of the schools because he was given little or no authority. Still more frequently the board could not be held responsible for the efficiency and success of the schools because, although given apparent authority, it had little real authority, not being able to control its budget. The board complained of the superintendent, the people complained of both, and the schools failed of their purpose because neither the board nor the superintendent was given the means or the freedom and authority to all good and successful work. . . .

Conditions are still far from perfect, but they are much better than they were only a decade or two ago, and are improving. There is a much better understanding of the powers, functions, responsibilities, and methods of procedure, both of boards and of superintendents. . . .

<sup>3</sup> Salaries of Administrative Officers and Their Assistants in School Systems of Cities of 25,000 Inhabitants or More, by Walter S. Deffenbaugh. Bureau of Education Bulletin, 1921, No. 30. The matter quoted is from the Introduction to this pamphlet by P. P. Claxton, Commissioner of Education.

For any large city, and in most respects for any small city or town as well, the ideal would probably be somewhat as follows; at least this is what is recommended by the Bureau of Education.

I. A small board of five or seven members elected by the people on a non-partisan ticket from the city at large, or appointed by the mayor and confirmed by the city council. Election by the people is more democratic and, in most cases, better than appointment. If the board is appointed, it should be made as nearly as possible nonpartisan by stipulating that not more than three out of five or four out of seven members may be of any one political party. The term of office should be for as many years as there are members of the board; the term of one member expiring each year. On an appointive board, no person having served two terms in succession should be eligible for re-appointment. Members of the board should be removable only by a majority vote at a properly constituted election or upon conviction of crime or gross neglect of duty. There should be no means by which the whole or a part of the board could be removed for sinister purpose by the mayor, the city council or any other political or semi-political body.

Members of boards should not be paid a salary. Salaried members of boards are in danger of the temptation of wanting to earn their salaries by administrative activities that should be left to the superintendent and other employees of the board. The board should regard itself as a legislative and policy-making body like unto the boards of directors of a bank or any other business or industry. Its members should remember that they have no more individual authority than have the members of any other legislative body and that when the board is not in session they are only ordinary citizens, subject like all other citizens to the rules and policies of the board itself. No member should even assume to make promises for the board or to speak for it except when duly authorized to do so. The number of standing and special committees should be reduced to a minimum. A small board with a competent superintendent and administrative staff should have little need of standing committees. The board should elect its own chairman annually and employ a competent secretary from outside its own membership. It should hold open meetings at stated times, not too frequent, should require attendance of its members and not do business without a quorum actually present. All action should be taken by

formal vote and should be duly and accurately recorded. The records of the boards should be open for the inspection of the public and all important actions affecting its policy should be published promptly in the public prints. The superintendent of schools should be expected to attend all meetings of the board except when his own election, his salary, or other matters pertaining to his own interests are being voted on.

Under the provisions of the charter of the city, the constitution of the state, and the acts of the legislature, the board of education should have entire control of the schools, be held responsible for their success, and should be given such power as necessarily accompanies such responsibility. Among the powers of the board should be the making of the budget without review by any other body, determining and carrying out its own program of building, repairing and equipping schoolhouses, including their location and the purchasing of sites, and, within limits prescribed by law, levying taxes and issuing and selling bonds for school purposes.

II. As its administrative agent the school board should employ a competent superintendent of schools. To assist in assuring his competence, the salary should be made large enough and the conditions of employment such as to attract men of first-rate ability, preparation and successful experience. . . .

In every large city the superintendent of schools should have the assistance of a competent business manager and assistant superintendent for each important division of the school work and should have under his direction a competent corps of directors or supervisors of special subjects. There should also be under his direction an efficient bureau of research or investigation and statistics. There should also be sufficient clerical and office help to relieve the superintendent and all his assistants from time and energy concerning details and leave freedom for larger and more important tasks. Through these, under the general authority of the board of education and in harmony with its larger policies the administration of the schools should be such as to bring out and utilize to the fullest possible extent all the latent energies of all administrative and supervising officers and all teachers and students.

Though the plan of school administration here recommended goes beyond the particular point under consideration, it has been presented with little curtailment, since it presents in an exception-



ally compact form the opinion of one of our foremost students of educational problems in regard to the scheme of organization and administration that should be generally adopted by American cities. It will be noted that it is based on the idea that the school administration should be completely divorced from that of the city government proper. One can well question this feature of the plan and yet endorse thoroughly the line of cleavage between the duties and functions of the school board and the superintendent of school.

**Distinction between Boards and Commissions.** In general discussions and indeed in legislation, the two terms "board" and "commission" are used almost interchangeably as synonymous expressions. In the national government, for example, the body to control railroad rates and conditions of service, the Interstate Commerce Commission, is designated a commission, while the service having a like function in respect to corporations engaged in transportation by water, is termed the Shipping Board. There is however, or should be, an important distinction between the two. A board, properly speaking, is a group of members who are required to act collectively upon all matters falling within their jurisdiction. It may be that the members act individually in the way of securing data, conducting preliminary hearings, etc., but no action is taken by them except as a body. A commission is a group of members having the duty not only of acting collectively as a board, but also of serving individually as heads of organization units that have been set up for the performance of administrative work that has to be done. Probably the best example of a true commission is that of a municipal government organized on the commission plan. In the national government examples of commissions are: the Tariff Commission, the Employees' Compensation Commission, and the Federal Farm Loan Board.

It is evident that if the principle of vesting no administrative duties, strictly speaking, in a board or commission is followed, the commission form of organization finds no case where it should be employed.

**Composition of Boards and Commissions.** A question of no little importance, after decision is had to make use of the board or commission type of organization, is that of the composition of these bodies. They may be composed of members serving full time and receiving compensation on the same basis as other officers of the government, of private persons receiving no compensation and giving only a small part of their time to the work of the board or commission, of members holding other offices under the government and by virtue of such offices being *ex officio* members of the board or commission, or of members representing combinations of these methods of selection.

Examples of all these kinds of boards or commissions as regards their composition are to be found in the national government. Thus the Interstate Commerce Commission, the Federal Trade Commission, the Tariff Commission and the Shipping Board, for example, are composed of members holding no other office under the government, receiving salaries corresponding to the importance of the positions held by them, and expected to give their entire time to the work of their offices in the same way as other officers of the government. The Board of Indian Commissioners, on the other hand, is composed of private individuals receiving no compensation and giving but a very small part of their time to the duties of the Board. The Federal Power Commission has a purely *ex officio* composition, consisting of the Secretaries of War, Interior, and Agriculture. The late Council of National Defence was likewise an *ex officio* body, its membership consisting of six members of the president's Cabinet. The Federal Board for Vocational Education, on the other hand, had a mixed membership, four of its seven members consisting of the Secretaries of Agriculture, Commerce, and Labour and the Commissioner of Education, who serve without additional compensation; and three, of persons appointed from private life, with a view to their representing agricultural, manufacturing and commercial, and labour interest, who are compensated and are expected to give their entire time to the work of the board.

It is difficult to lay down any general rules with respect to which of these types of boards or commissions should be adopted. Much depends upon the circumstances of each case, the amount and character of work to be done, etc. It is manifestly unwise to provide for a non-salaried honorary board when the duties to be performed are onerous. It should also be noted that the matter of creating *ex officio* boards can easily be overdone. Most officers holding high positions, in the national government at least, have all they can do to attend to the matters of their own offices. They are apt to look upon their duties as members of boards as a side issue and to give to such duties but an incidental attention, with the result that the real work of the board is done by some subordinate officer. When the work is merely that of approving some important proposal, the system has its undoubted advantages. When, as in the case of the Federal Power Commission and the Federal Board for Vocational Education, the work is heavy, one of two things results: either too great a draft is made upon the time and attention of the *ex officio* members, with the result that their own services suffer, or they perform their duties in a perfunctory manner, in which case it would be better to make use of the bureau type of the organization or a salaried board or commission.

**Subsidiary Boards, Commissions, Committees, Etc.** Up to the present time we have considered the question of the place of the board or commission in governments from the standpoints of the organ exercising the powers and duties of direction and control. Our general conclusion has been that this form of organization finds little or no justification in the field of administration proper. This is not saying, however, that effective use cannot be made of such bodies, provided they serve in a subordinate capacity. There are many cases where it is desirable for the administrative head of a service to get the advice or action of a body of men on certain phases of his work. For example, not a few services have the duty of adjudicating claims or the granting of applications. This is the case in such services as the Patent Office, the General Land Office, the Bureau of Pensions, etc. In such services the examination and report upon the application or claim is made in the first instance by an administrative officer or division. Whether formal appeal from such action is or is not permitted, there is a manifest advantage in having such action reviewed by a body before final action is taken. Numerous instances are, therefore, to be found in the national government where use is made of such bodies. In some cases the law creating the service and defining its powers and duties makes definite provision for such boards. In other cases they have been established by the service itself in the exercise of its general powers to determine its procedure.

Other examples of where a board, commission, or committee can be made to serve a valuable purpose are: when important decisions have to be made, such as the selection of projects of sites for public works; when important rules and regulations have to be drafted; and generally when an administrative officer desires advice before taking important action.

In all these cases it will be noted that these boards exercise no powers of direction and control and perform no duties of a purely administrative character. They are simply subordinate agencies and are, therefore, open to none of the objections that have been urged against boards or commissions as organs of general administration.

**General Summary.** So much attention has been paid to this subject because of the fact that the principles which should govern in organizing administrative services as bureaus or as boards or commissions have been so frequently disregarded by all of our governments, national, state, and municipal, with the result that administration has been made much more costly than is necessary and in so many cases has been rendered complicated and inefficient. The error has almost invariably been that of providing for boards or commissions when the requirements of the situation called for a single-headed bureau, or when use is made of both types of

organization, as is done in providing for the administration of public health, education, and police laws, of failing to vest all administrative duties in a single executive officer and of giving to the board or commission only duties of a general policy determining, quasi-legislative or quasi-judicial character.

An admirable demonstration of the validity of these principles is furnished by the action taken by the national government for the construction of the Panama Canal. So long as the work to be done consisted of determining general policies, that is, the location of the canal, whether at the Isthmus of Panama or in Nicaragua and the general character of the work, it was quite proper that use should be made of a board or commission. As soon as these decisions were made and the actual work of construction was entered upon, this form of organization immediately began to give trouble. After futile attempts were made to meet these troubles by changing its personnel, President Roosevelt wisely abolished the commission and created in its place a bureau type of organization under which all authority was vested in the hands of a single officer known as Governor. This action at once cleared up the situation and high efficiency in operation resulted.

Other examples of where the board or commission form of organization, though justified at the outset of the inauguration of a service should later give way to the bureau form, could easily be given. Mention, however, will be made of only one, the Federal Farm Loan Board. This board has the administration of the system of federal farm loan banks. When this system was first started, important questions of general policy arose, such as the division of the country into farm loan bank districts, the working out of rules and regulations to govern the banks, etc. It was not deemed wise to give such board discretionary powers to a single individual. Provision was accordingly made for vesting direction and control of the system in a board. The system is now in full working order and the questions coming before the service are of no greater importance than, nor do they differ essentially in kind from, those arising in other administrative services. The time has arrived, therefore, when the board should be abolished and a bureau created in its place. Doing so would result in a simpler form of organization, increased efficiency, and a substantial economy in practical operation.

With respect to both the examples which have been given it should be noted that it would have been possible to have provided for a bureau form of organization at the outset and to have provided that, in regard to specified matters of general policy, etc., action should not be taken by the bureau chief except upon the advice and concurrence of an advisory board.

## CHAPTER VIII

### ORGANIZATION OF OPERATING SERVICES; INTERNAL ORGANIZATION

Industrial engineers recognize three distinct types of organization according to the principles followed in the distribution of work among organization units and the corresponding location of responsibility. These may be designated as the autocratic, the functional, and the departmental.

The autocratic is the systems where the line of authority runs direct from the head of the enterprise, or general manager, to the individual employee.

The functional type of organization is one where the character of the activity engaged in rather than the end sought, the product or service to be rendered, is made the basis of determining the jurisdictions of the subordinate units of organization. The departmental type is that where all operations, regardless of their character, having to do with the attainment of the end sought, are brought together in the same organization unit or group of organization units.

The autocratic type may be said to be a system of no formal organization. This system is highly efficient in small enterprise where it is possible for the director, or general manager, to keep in immediate touch with and personally direct and supervise operations. The limits of the effective working of this system are, however, soon reached. There is, consequently, always present the danger that the manager of an enterprise, starting on a small scale and increasing in size, will fail to recognize when these limits are reached and continue to work under this system long after circumstances render it advisable that a formal organization should be set up. As soon as an enterprise reaches any considerable size or complexity it is, therefore, essential that one or the other of the other two systems shall be adopted.

The essential difference between these two systems may be shown by indicating the organization of a statistical service, such as the Bureau of the Census, having the prosecution of a number of statistical inquiries, under each of these systems,

If organized on the functional plan, the Bureau of the Census would have organization units for specific operations such as planning, the dispatch and receipt of schedules, the editing of returns, the computation and compilation of data, revision and verification,

editing, etc., that would do the work falling in their fields for all inquiries under way. If organized on the departmental plan, the primary units of organization would be the specific inquiries, census of population, municipal statistics, vital statistics, etc. Each such unit would then have subordinate units for the performance of the several operations that have been mentioned. There would, thus, be as many distinct editing, computing, etc., sections as there were inquiries. The distinction between the two systems would be that of the manner in which the final operating units were grouped or classified. Under the functional system, they are grouped according to technical operations or processes; under the departmental, according to activities, jobs, or products.

The relative advantages of these two types of organization have been the subject of much controversy. The leading exponent of the functional system is the late Frederick W. Taylor, and the system has consequently frequently been known as the "Taylor System" and identified with the name of "Scientific Management."

Each system has had its ardent partisans, many of whom have taken the position that the system advocated by them was the only correct one and should be employed in all cases. In the opinion of the writer any such extreme position must be deemed to be a mistake. It is believed that the relative advantages of the two systems are wholly dependent upon the character, size, and complexity of the enterprise. More than this, it is thought that there are many cases where a combination of the two should be employed; that is, where the departmental type may be adopted in principle but departed from in certain cases where study or experience demonstrates that general units for the performance of all activities of a class should be set up. For example, in the case of the Bureau of the Census, though there may be separate divisions for vital statistics, municipal statistics, cotton statistics, etc., it may be found desirable to concentrate the editing work for all these inquiries in a single functional unit.

If the attempt is made to evaluate the merits of the systems in general terms, it would seem that, while the functional system would meet the needs of a highly technical manufacturing enterprise, the departmental would more nearly correspond to those of most government services. The departmental system lends itself far more readily than does the functional to the definite location of responsibility for distinct enterprises and to the operating of a system of budgetary and accounting control. Our general conclusion, therefore, is that the departmental system is the one that should in most cases be adopted by government services, but that provision should be made for special functional units where a reasonably strong case for them can be made out.

## CHAPTER IX

### ORGANIZATION OF OPERATING SERVICES: STAFF AGENCIES

The prime function of the head of a service, as in the case of the general manager of any enterprise, is to direct, supervise, and control. His duties, in a word, are to reach decisions regarding the manner in which the service under his direction shall be organized and the methods of procedure that shall be employed to give the necessary orders to ensure action upon these decisions, and to supervise the work done under them in order that all parts of the administrative machinery work in harmonious relations with each other and that the work itself is performed with efficiency, economy, and dispatch. If these several duties, and especially that of giving orders, are to be efficiently performed, the director of the service must have full information regarding the problems to be met. Whenever the service is one of magnitude, and especially when the questions presented are of a technical character, it is impossible for him to secure this information directly. His decisions must to a large extent be passed on the technical advice of other officers having special competence in respect to the matters to be acted upon.

For this advice, reliance cannot be placed solely upon the subordinate officers having direct charge of work. This for several reasons. In the first place, these officers are the ones who for the most part raise the questions to be answered; they are interested parties seeking something which it is the duty of the director to determine whether to grant or not. In the second place, these officers as a general rule have a knowledge only of the work of their own divisions and are interested in the needs and problems of those divisions rather than those of the service as a whole, while many of the most important questions to be decided have to do with general policies, or at least the activities of more than one subdivision. Finally, the decision in many cases can only properly be made after careful investigation of the factors involved in the question. Especially is this true when the question has to do with purely technical matters. Experience has demonstrated that only to a limited extent is it desirable to entrust to officers and service having the direct performance of work, the prosecution of these special investigations. These officers have not time for work of this character, and often a very special order of ability and, at times, an elaborate, special plant and equipment, is required for the work.

It results from these considerations that most services of magnitude, and especially those requiring an elaborate organization, and engaged upon work of a more or less complicated and technical character, have felt the need of a special unit of organization whose sole function should be to keep in touch with the organization, methods, needs, and problems of the service as a whole, of making the special researches required in order to develop the facts upon which fundamental decisions regarding policies and procedure must be based, and of acting as the technical adviser or aid of the head of the service. These special organization units are generally designated as staff agencies. Their most characteristic feature is, or should be, that they have no responsibility or authority in respect to the actual performance of the duties for the performance of which the services are created and maintained. Their duties are, or should be, exclusively of a research, consultative, and advisory character. They should, thus, have no power to give orders. The moment that any such authority is conferred upon, or exercised by them, there results a division of authority and responsibility. This principle is one of fundamental importance, and every effort is made to emphasize it here, since it is unfortunately one that is too often disregarded in practice, and, wherever disregarded, evil results have followed.

Much the best example in the national government of the necessity for, and experience with, staff agencies is furnished by the War Department. The organization and work of this department are unequalled in the government for magnitude and complexity, and the operations to be performed are of an exceedingly technical and diverse character. Legally, the Secretary of War, acting for the President as the commander-in-chief of the armed forces of the nation, is in command of this vast undertaking. It is his responsibility to see that it is properly organized, that it makes use of proper administrative methods, and that the several parts are working, each in its proper field and in proper co-ordination with other parts. This, moreover, represents only a part of his obligations. It is not sufficient for him to operate the machine as it exists. The art of war is constantly changing. It is his duty to see that the military establishment shall adopt the new devices and methods that will keep it in line, if not in advance, of the military establishments of other countries. The army is made up of distinct branches, each with its problems and needs. These branches are by no means in accord in respect to what should be done in the way of introducing changes. The officers in charge of them have all they can do in attending to their current duties. They have no time, or adequate facilities, for studying the work of other military establishments or for working out the many technical problems that are presented. Their duty is that of carrying



out orders. Decisions must be made and orders given by the Secretary of War.

Only after the War Department had offered a nearly continuous example of inefficiency in time of peace, and had repeatedly broken down in time of war, was it appreciated that one of the most potent causes of this unsatisfactory condition of affairs was the utter lack of a special body of men, who, freed from all administrative duties and responsibilities, could devote themselves to the study of the technical, organizational, and procedural problems of the army and, on the basis of their knowledge so obtained, be prepared to assist the Secretary of War in the exercise of the duties as director in chief of the military establishment. To Elihu Root belongs the credit, both for recognizing this lack, and for securing the action needed to correct it. In his annual report, as Secretary of War, for 1902, he thus wrote:

Our military system is, however, still exceedingly defective at the top. We have a personnel unsurpassed anywhere, We have the different branches of the military service well organized, each within itself, for the performance of its duties. Our administrative staff and supply departments as a rule have at their heads, good and competent men, faithful to their duties, each attending assiduously to the business department.

But when we come to the co-ordination and direction of all these means and agencies of warfare, so that all parts of the machine shall work true together, we are weak. Our system makes no adequate provision for the directing brain which every army must have to work successfully. Common experience has shown that this cannot be furnished by any single man without assistants, and that it requires a body of officers working together under the direction of a chief and entirely separate from and independent of the administrative staff of an army. . . . This body of officers has come to be called a general staff. . . . Such a body of men doing general staff duty is just as necessary to prepare an army properly for war in time of peace as it is in time of war. It is not an executive body; it is not an administrative body; it acts only through the authority of others. It makes intelligent command possible by procuring and arranging information and working out plans in detail, and it makes intelligent and effective execution of commands possible by keeping all the separate agents advised of the parts they are to play in the general scheme.

It is impossible to state better the need for, and the nature and function of, a general staff than is done by Mr. Root in the paragraph just quoted. Due to his masterly presentation of the case

Congress adopted his recommendations through the passage on February 14, 1903, of what is known as the General Staff Act.

Notwithstanding the fact that this act seemingly made it perfectly clear that the General Staff provided for by it should have no administrative powers or duties, but should be exclusively a staff agency in the technical sense of the word, no sooner was this staff organized than it sought to push its authority beyond the limits prescribed for it, and to assume the power of issuing orders. It is true that these orders were in form issued as by the authority of the Secretary of War. Notwithstanding this, it sought, and to a considerable extent succeeded in assuming and exercising, the powers of supreme direction. The result was that, not only were the energies of the general staff in large part devoted to duties of actual administration, instead of research and advice, but division of administrative responsibilities resulted between the general staff and the heads of the administrative bureaus in the department. This had the effect to reintroduce into the department an evil which had long been its bane and largely to defeat the fundamental purpose of the General Staff Act. To correct this, Congress inserted a clause in the National Defence Act on June 3, 1916, which, with slight verbal changes, was continued in the amendments to that act of June 4, 1920, the clause, as amended, reading:

Hereafter, members of the General staff corps shall be confined strictly to the discharge of duties of the general nature of those specified for them in this section and in the act of Congress approved February 14, 1903, and they shall not be permitted to assume or engage in work of an administrative nature that pertains to established bureaus or offices of the War Department, or that, being assumed or engaged in by members of the General Staff corps would involve impairment of the responsibility or initiative of such bureaus or office or would cause injurious or unnecessary duplication of or delay in the work thereof.

The duties of the General Staff had been previously set forth by the act of 1920 as follows:

The duties of the War Department General Staff shall be to prepare plans for national defence and the use of the military forces for the purpose, both separately and in conjunction with the naval forces, and for the mobilization of the manhood of the nation its material resources in an emergency, to investigate and report upon all questions affecting the efficiency of the army of the United States and its state of preparation for military operations; and to render professional aid and assistance to the Secretary of War and the Chief of Staff.

Even with this precise definition of the duties of the General Staff and limitations upon the scope of its duties, there is apparently still a failure on the part of the War department fully to appreciate the special and restricted character of the function of this body. The annual reports of the Secretary of War and the Chief of Staff still clearly reveal the constant tendency on the part of the General staff to take to itself executive and administrative powers. This is a tendency that cannot be too strongly combated. It is true that the act of 1920, after providing that the Chief Staff shall submit to the Secretary of War "plans recruiting, organizing, supplying, equipping, mobilizing, training and demobilizing the army of the United States and for the use of military forces for national defence," states that "upon the approval of such plans or recommendations by the Secretary of War, he shall act as the agent of the Secretary of War in carrying the same into effect." It is manifest, however, that this clause, if read in connection with the other provision, means merely the issue of such general orders as properly emanate from the Secretary of War and of seeing that the determinations of the Secretary of War in fact put into effect and not those of administration, properly speaking.

Special attention has been given to this subject of the General Staff of the War Department since, as has been stated, it furnishes by far the most important illustration of a staff agency possessed by the national government and raises in a concrete form the whole problem of the nature and proper function of such a body.<sup>1</sup>

Before leaving this subject it is important to note that, just as the President, acting through his Secretary of War, has imperative need of a purely staff agency to enable him properly to perform his duties as commander-in-chief of the armed forces of the nation, he has a corresponding need for a like agency to enable him to perform his duties as head of the civil branch of the government. This need has now been met through the creation, by the Budget and Accounting Act, 1920, of the Bureau of the Budget. A reading of the provisions of this act and of the chapter on the "The Need for a Bureau of General Administration," will show how closely this service corresponds in powers and duties to the General Staff of the Army which we have just been considering.

Furthermore, it should be noted that the same need for special staff agencies exists in the cases of many of the important administrative subdivisions of the government. It is, for example, more than likely that had the Shipping Board from the beginning of its existence made provision for such an agency with the sole duty of studying the problems to be met by it, its administration of affairs would have been on a far more satisfactory basis than it has been or is at the present time.

<sup>1</sup>The history of the effort to develop a general staff in the War Department is an exceedingly interesting one. On this subject see, in addi-

tion to the reports of the Secretary of War and hearing on bills for the reorganization of the military establishment, *Creation of the American General Staff: Personal Narrative of the General Staff System of the American Army*, by Major General William Carter 22, 1924, 68 Cong., S. doc. 119, and *The American General Staff*, by Major General J. G. Harbord, *Saturday Evening Post*, March 13, 1926.

<sup>2</sup>This subject of staff agencies has been so excellently handled by Dr. F. A. Cleveland, in a paper read before the Institute of Arts and Sciences of Columbia University, and subsequently published as a pamphlet under the title of "Expert Staff Aids to Management," that it is thought worth while to reproduce certain portions of his address.

After calling attention to how the whole problem of management becomes a different one when an enterprise passes from one of small size and relative simplicity to one of great size and complexity and especially when it changes from one of individual to one of corporate ownership and direction, he says:

"Instead of this corporate 'management' depending on the proprietor's personal 'sense' faculties, a substitute must be found. Even those who are charged with direction and control have little personal touch; both the board and the chief executive are far removed. A central office has been set up for the management that is not in physical touch with any of the stores or factories for the conduct of which they are responsible, yet the need for the use of the faculties of apperception and reasoning has many times multiplied.

"This need is met by organization—by 'staff' organization. And this 'staff' organization takes in all the functions initially performed by the use of the personal faculties of the proprietor when he ran the business himself. Now, for smell, taste and touch there is a central tasting laboratory; now for eyes and ears there are inspectors of various kinds and specializations; now for collecting and co-ordinating information and presenting it in digested form there are statisticians, price experts, accountants, draftsmen, mechanical and production engineers; now the 'management' has chiefs of staff divisions to assist in reflective and constructive reasoning; and above these chiefs of staff divisions there are still other experts who are employed to prepare and submit plans for the readjustment and enlargement of the business to make it more able to compete, more profitable to the shareholder. All this is 'staff'—a personnel set apart and made independent of the 'line' to assist both the board of trustees and the executives in the exercise of control over the affairs of the corporation.

"Among the characteristics of this highly developed corporate organization, this is to be noted: The executive as the head of the business is the only point of common contact. In this corporation, both 'line' and 'staff' reach out from the 'executive head' and the personnel of each is quite independent of the authority of the other. Not a man in the staff issues an order to the line. Each staff agency is personal to some one in the management. Together, all the staff agencies do for the management exactly what the specialized sensory organs and thinking faculties (the faculties of apperception and reasoning) did for the proprietor when he ran the business himself and had no staff. All of them work together for the information of the management—to collect, correlate and reason about determined facts.

"The staff agencies reach conclusions and help the management reach conclusions, both about what happened and what is proposed; their function is to know the facts and with knowledge they make and submit plans, but there they stop. The responsible, controlling personnel of the management must decide."<sup>3</sup>

## CHAPTER X

### ORGANIZATION OF OPERATING SERVICES: FIELD ESTABLISHMENTS

In what has gone before we have considered the organization of the government services on the assumption that all of the work of the service is carried on at one place and presumably at the seat of government. There are many cases, however, where the bulk of the work is performed at scattered stations or posts and the office at the seat of government consists merely of the headquarters for the exercise of the function of general direction and control over these field stations. This is particularly so in the case of the national government.

The most characteristic feature of that government from the organization standpoint, as contrasted with the individual states and particularly with municipalities, is that the great bulk of the work performed is done in the thousands of field stations, the post offices, offices of collectors of customs and collectors of internal revenue, army posts, navy yards, etc., scattered throughout the United States and its insular dependencies, and, in the case of the diplomatic and consular services, throughout the world. Most services of the national government, except those of a purely research character, thus embrace two kinds of organization units: those making up the bureau or office proper at Washington and those constituting what is known as the field establishment.

It is manifest that services of this character offer problems of organization and procedure that are not present in the case of services whose entire organization is at one place. Though these problems may seem to deal largely with matters of procedure, the fact that they arise out of organization conditions and are intimately connected with such conditions, makes it proper that they should be considered at this place.

**Legal Status of Field Stations.** The first of these special problems is that of the legal status of the field stations; that is, whether their existence is provided for by statute or by administrative order. In some cases this involves only the determination of the number, location, and grade of field stations; in others the division of the country into territorial districts. In the latter case the field stations are offices for the administration of affairs within their respective districts.

This question as to whether it is desirable that Congress should itself by statute seek to fix the number and location of local offices and the boundaries of local administrative areas or leave this matter to administrative determination, is one which has already received consideration in the chapter on "The Functions of the Legislature as a Board of Directors." It was there pointed out that with respect to this the national government has pursued no consistent policy. In some cases the whole matter of dividing the country into administrative areas and the determination of the number and location of field stations has been left to the service concerned, or to the President. In others, where there is no more reason for a similar freedom of administrative action, this feature of organization is rigidly prescribed by statute, and can only be changed by formal legislation. Our general conclusion was that the first of these methods was the preferable one. The subject has been again mentioned here, as it is one of the most important points involved in the problem of the organization of field establishments now under consideration.

**Grading and Classification of Field Stations into a Unified System.** A matter that has received little or no consideration, but which is of great importance, is that of grading field stations according to their importance, and of classifying them according to such grade, into a hierarchy of offices constituting a single unified service. In many services, such as the post office and the customs and internal revenue services, the field stations are of varying importance. It is highly desirable that on the basis of this varying importance, the local offices should be classified in distinct grades to the end that the matter of appropriation and allotments for the expenses of such offices, the determination of the number and compensation of personnel, and other matters of personnel, and other matters of practical administration may be put upon a systematic basis. Of still greater importance is the unification of this hierarchy of field stations into a single system in the sense that the employees and officers may be freely transferred from one station to another. The object is the erection of services into those offering a definite career to their personnel. This can only be secured where the normal method of filling upper positions is by promotion from below or, in the case of the officers in charge of the stations, by their transfer from the less responsible to the more important posts. This desirable end is one that will be more fully considered in Part II, dealing with problems of personnel. It is mentioned here because the basis for such a personnel system must be based in organizing the field stations on the principles here set forth.

As regards conditions now actually obtaining it may be said that scarcely a beginning has been made in this direction, and that

there are few more effective means of putting the national government upon an efficient and economical basis than by putting through this reform.

**The Question of Sub-station.** Another special problem of organization having to do with the field establishments which is closely related to the one just considered, is that of the extent to which it is desirable that the less important stations shall be given the status of sub-stations. Whether this is done or not has an important bearing upon the practical work of administration. Where no provision is made for sub-stations, the line of authority in all cases runs direct from the station to the central office; when sub-stations are set up, the line of authority runs first to the stations of which they are subordinate units and then to the central office. The advantages to be secured through a sub-station system are: first, a decentralization of responsibility from the standpoint of the central office, second, the making possible of more effective co-operative relations between contiguous stations; third a lessening, in many cases, of the expense of maintaining subordinate stations; and finally, a lessening, in many cases, of the work and expense involved in furnishing sub-stations with supplies and in subjecting them to physical inspection.

To a limited extent the system of sub-stations now obtains in certain of the field establishments of the national government, for example, the postal and customs services. There can hardly be any question that the system can be much developed in both of these services and put upon a more systematic basis. And in the case of all field establishments it is desirable that a careful study should be made as to whether this system cannot be advantageously applied.

**Supervision and Control of Field Stations.** The existence of field stations as a part, and often the most important part, of the organization of a service raises question of the methods by which the operations of these stations may be supervised and controlled in a form that is not present in the case of organization units constituting a part of the central organization properly speaking. If efficiency and economy are to be secured, it is imperative that the central organization shall have means by which it can have full and detailed information regarding the character and amount of work to be done at each station and the organization, personnel, and equipment, and that it shall periodically receive information regarding the financial and other needs of the station and its current operations.

This information should be secured in two ways: through the installation of a system of accounts and reports and through the maintenance of a system of personal inspections.

With respect to the former the most important point is that the system shall be one that will secure the same data, and compiled in the same form, from all stations. One of the most effective means of control is that of comparing the organization, personnel, and operations of like stations with each other and of the same station over a period of years. To this end the central office should work out a recording and reporting system that will give it the data needed for control purposes. Obvious as this requirement would seem to be it is one which is very imperfectly met by many services of the national government.

Though much can be done in the way of control through a proper accounting and reporting system, it is still necessary that it should in most cases be supplemented by personal inspection. All services having field establishments should, therefore, maintain as a part of their central offices an inspection service. Due to the expense involved in operating such services, it should be on as small a scale as circumstances permit, but a service, of some kind should exist.

**Problem of Centralization versus Decentralization of Authority and Work.** In some respects the most important special problem presented by services maintaining field establishments is that of determining the extent to which authority shall be given the field stations to take action on their own responsibility without first requiring the approval of the head office. This problem is usually stated in the form of the issue between centralization versus decentralization. Under a highly centralized system local units are mere executing agencies. They have no power to act on their own initiative; the action is the action of the central office; and even as regards matters of internal administration, such as the promotion of employees, the purchase of supplies, etc., authority for action from headquarters must first be received. Under a decentralized system the field stations act under general grants of power, and their action is final except when special provision may be made for an appeal to the central office. There is, of course, room for intermediate systems varying all the way from one type to the other.

It is worth while to attempt a statement of the relative advantages and disadvantages of these two systems. The advantages of the centralized system are that it provides for a maximum of control; ensures that all the work done is performed in the same manner and in accordance with the same general policies and principles; and makes more difficult administrative abuses in such matters as the employment and handling of personnel, the purchase and use of supplies, etc. The disadvantages may be summed up in the delay in securing action, the increased expense that usually



results under this system; the fact that the central office has to act without the knowledge of local conditions possessed by the local units; and lack of flexibility in administration. The advantages and disadvantages of the system of decentralization are for the most part the reverse of those stated for that of centralization.

It is impossible to make any general statement regarding which of these two systems should be employed by the services of the federal government. Everything depends upon the character of the work to be performed and the special conditions to be met. All that can be done here is to point out that this is a problem that should be carefully studied by each service with a view to the establishment of a system under which the conflicting considerations are best harmonized, and to mention one factor that should be especially considered in making such a study.

**Control through Specification in Advance versus Control through Review of Action.** Control may be exercised in two ways: by specification in advance and by review of action taken. Under the first, control is secured by the fact that action cannot be taken until authority therefor has been specially granted. Under the second, the agent may go ahead under a general grant of powers but must make full report regarding the manner in which discretion vested in him is exercised. An appreciation of the existence of these two methods is important, for just as in proportion as there are effective means of controlling through accounting, reporting, and audit, the attempt to control through specification in advance may be foregone. It results from this that every effort should be made to set up an effective system of control through accounts and reports, both as an end desirable in itself, and as making possible the securing to a greater extent of the incontestable advantages of decentralization.

✓ **Unitary versus Multiple Overhead Direction and Control.** In the organization of field establishments consisting of units having the performance of a wide range of activities, a very special problem of organization from the standpoint of overhead direction and control is presented. These units must have an internal organization consisting of departments or divisions corresponding to the different kinds of activities to be performed. In such services it is usual that the central office at the seat of government will have a corresponding internal organization. Probably the best examples of services of the national government of this character are the Navy and Post Office departments. The former has the task of maintaining and operating a series of navy yards, each of which requires an elaborate organization of departments or divisions, such as those of general administration, personnel, finance and records,

construction and repair of hulls, machinery, ordinance, etc. The latter maintains post offices, many of which are large units which have to be organized in divisions for the handling of different classes of mail, postal savings accounts, registration of mail, the foreign and domestic money-order system, etc.

In services such as these, the important question is presented as to the manner in which provision shall be made for the direction and supervision of these subordinate units of organization of the field stations. Experience shows that the choice lies between two alternative systems. Under the one, the line of authority runs from these divisions to the officer in charge of the field station and from him to the central office at the seat of government; under the other, the line of authority runs direct from the division head to the head of the corresponding division in the central office. These two terms have been variously designated as the military or territorial and the departmental or functional. Neither of these methods of distinguishing between the two systems is thoroughly satisfactory. It is believed that the terms "Unitary" and "Multiple" Overhead Direction and Control, though cumbersome, or more accurate from the standpoint of drawing the distinction.

To amplify somewhat further this distinction, in the military, territorial, or unitary system, the head of the field station is placed in complete charge of all the activities of his station and the division heads are his subordinates. The head of the station is, thus, the general manager of the station in the fullest acceptance of the term. As a consequence of this, all communications between the station and the central office pass through his hands and he is held responsible not only for his own acts, but also for those of his subordinates. The station, in a word, is treated as one having a high degree of administrative and financial autonomy. In the departmental, functional, or multiple system, on the other hand, the station is looked upon as an assembly of units which are only loosely held together for matters of general administration by the authority of the head of the station. From the standpoint of the performance of their technical duties, these units are subdivisions of the corresponding division in the central office rather than of the station organization.

Before attempting to contrast the relative merits of these two types of organization, it is of interest to note that no agreement has been reached in respect to this matter by private undertakings having the same problem to meet. Mr. Ray Morris, in his volume on Railroad Administration, has brought out the fact that two of the most important railway systems of the country, the Pennsylvania and the New York Central use, one, one system, and the other, the other. The Pennsylvania has the unitary, while the New

York Central has the multiple. This is brought out in the following paragraph.

But the unit of operation is the division; let us compare the authority of the division superintendent on the Pennsylvania and the New York Central. The Pennsylvania division superintendent is reported to by a master mechanic, a division engineer, a train-master, road masters, yard masters and dispatchers. That is to say he has full control of operating his division, and of current maintenance of way, structures and equipment.

On the New York Central, the division superintendent has charge of train movement only, and the functions of the general superintendents are no greater; the maintenance forces, civil and mechanical, do not unit short of the vice president and general manager.<sup>1</sup>

Mr. Morris' judgment was strongly in favour of the Pennsylvania or unitary system, though he stated that the other could be made to work in the case of a small road where little trouble was encountered by the central office in keeping in immediate touch with field operations.

Probably the most striking example of the unitary system is furnished by the field organization of the American Telephone and Telegraph Company. This is all the more interesting because the nature of the problem, that of covering the country with a net work of local stations, and the character of the service performed, that of communication, bears a considerable analogy to the organization problem and duties of the Post Office Department. The system of this company, it happens, is excellently described in the annual report of the directors to the stockholders for 1911. Under the heading "Organization of the Bell System," the report reads:

Under this rearrangement of territory the American Telephone and Telegraph Company, controlling the entire Bell System, will, as it has in the past, exercise the functions of a "centralized general administration." All questions of policy common to all, all common matters which may have an effect upon the system as a whole, will be settled by the Central Administration. As one administration will do for all what each would have to do for itself, it has the advantage of economy and will maintain uniformity.

For operating purposes there will be eight or ten divisions with boundaries determined by present commercial conditions, instead of a much larger number of divisions with boundaries fixed more or less accidentally or by other considerations prevailing twenty-five or thirty years ago. Each division whether operated directly or through corporate organizations will have a responsible local ad-

<sup>1</sup>Railroad Administration, by Ray Morris, Managing Editor of the Railway Age Gazette, 1903-10, D. Appleton & Co., 1910, pp. 66-67.

ministration, supreme in the "intra-division" operations. Each division in turn will be divided into districts with a subordinate but responsible local administration, and in many cases these districts will be divided into subdistricts. In each district or subdistrict there will be a subordinate but responsible local representative who will in all local routine matters be to the public the representative of the whole system.

All lines of responsibility and suggestion will go up, from the local representatives to the Central Administration. All lines of authority down, from the Central Administration to the local chief.

Under the Bell organization each associated company or group of companies is now, and each division hereafter will become an autonomous whole, with its own local control and identity, and within the limits of the general policy and authority, absolute on matters pertaining to or which affect only that territory.

Such an organization avoids that general tendency in all combinations to concentrate too much, or to become unwieldy and unmanageable, and thus lose all the economical or effective operating advantages.

There are limits of active usefulness beyond which the physical or mental capacity of individuals will not extend.

The organization as constituted will be flexible enough to enable any rearrangement to be made of the whole or any part, in any way which may be found necessary or advantageous from reasons of policy or from business or legal reasons, without affecting the business.

Future financing may be done locally, by the divisions or districts, or it may be done by the Central Administration, or partly by each, as best will meet commercial or business conditions at the moment. It will be necessary only to consult expediency.

But the great advantage is that each division and each subdivision within wide limits is an autonomous whole; there is life and responsibility in the administration and operations of every separate division and subdivision—such life and responsibility as will carry the business along as an independent entity for almost indefinite periods under any possible conditions which may arise. With such conditions, nothing can happen which would be disastrous to the business, for whatever might happen would autonomously right itself, or be righted by the concerted action of this army of individuals, or by some individual of the army, now being trained to action and to take responsibility by having responsibility put upon them.

With such a body of men, educated in technicalities and theories, which by practical experience, they have subordinated to usefulness, with a trained capacity for taking responsibility—steadily moving upwards—there will always be a body of fit men to choose from in any emergency.

We have reproduced at length this description of the field organization of the American Telephone and Telegraph Company, since it, incidentally, gives a remarkably clear picture of the general problem of organizing a field establishment. It raises also the question whether the Post Office Department might not find in it features that could be incorporated with advantage in its own system. Especially is the question presented whether the advantages of a more centralized administration and more immediate control over field operations might not be secured by the grouping of post offices in a regional organization, the headquarters of which would be located in the chief city of each regional district.

It is matter of no little interest that for years the organization of the navy yards was on the multiple functional plan. This was carried to such an extent that the several departments of a yard were so independent of each other and so little under the control of the officer in charge of the yard, that they would not make use of each other's facilities. As a result there might be, and in many cases were, a number of shops, for example, paint shops, in the same yard, one belonging to one department and another to another. The duplication of plant, however, finally became so glaring and indefensible that the whole system was abolished and the yards reorganized on the unitary plan.

In conclusion, though it is not desired to lay down any rule of universal application, a contrasting of the relative merits of the two systems would seem to indicate that, in the great majority of cases at least, the unitary system is the one that should be adopted by government services.

## CHAPTER XI

### ORGANIZATION OF OPERATING SERVICES: REVENUE PRODUCING ENTERPRISES<sup>1</sup>

In the chapters immediately preceding consideration has been given to the problems of organization presented by the ordinary operating services of a government. Examination reveals, however, that there is a class of operating services which have such a distinct character that special provision should be made for their organization and administration, for example, those services which are similar in all essential respects to private enterprises conducted for gain in that their function is to render a service or supply a commodity for which a charge is made proportionate to the value of the service or commodity supplied. In the national government the chief examples of such services are; the Postal Service, the Panama Canal, the Alaskan Railway, the Inland Waterways Corporation, the Merchant Fleet Corporation of the United States Shipping Board, the Bureau of Reclamation, and possibly the Forest Service. Only to a limited extent have the states undertaken the operation of services of this kind. Municipalities, however, have in many cases entered this field through the ownership and operation of public utilities of various kinds.

**Special Character of Revenue-Producing Enterprises.** It must be apparent that the problems of organization and administration of these services differ radically from those of the other operating services of a government. The prime characteristic of these services, marking them off from all other government services, is that they are both revenue-producing as well as expending services. There is, moreover, a direct relationship between their income and expenditure that is wholly lacking in other services. If efficiently run, an increase in the scope of their operations, and consequently of their expenditures, will produce a corresponding increase in income. In principle they are operated on the basis of being self-supporting or of producing a net income that will be available for meeting the general expenses of the government.

<sup>1</sup>The present chapter is largely based on the article by the author, "The National Government as a Holding Corporation: The Question of Subsidiary Budgets" published in the *Political Science Quarterly*, December, 1917, and reproduced as a chapter in the author's volume, *The Problem of a National Budget*. Institute for Government Research, Studies in Administration, 1918. On this subject, see also *Government Owned Corporations*, by Harold Archer Van Dorn, 1926.

**Need for Financial Autonomy for Revenue-Producing Enterprises.** Due to this fact, as will be pointed out in Part IV, dealing with financial administration, it is imperative, if proper administration is to be secured, that these services shall be given complete financial autonomy. By this is meant that each service shall have its own property, its own treasury system, its own independent system of operating accounts, and its own budget. In this manner only is it possible to determine accurately the extent to which the service is paying its way, producing a profit, or running up a deficit. The only way in which the operation of these services should figure in the general accounts and budget of the government is through the insertion in the latter of items representing payments from the general fund to provide such services with a working capital or to meet any deficits as the result of operations, and of items representing net income or surplus paid by such services into the general fund. All of these matters are fully handled in Part IV, where problems of financial administration are considered. They are only mentioned here in order that the special problem of organization of these services may be clearly seen.

**Need for Administrative Autonomy for Revenue Producing Enterprises.** Passing now from a consideration of the financial aspects of the conduct of these services to that of their general administration, it is believed that an equally strong case can be made, in the case of the national government at least, for giving them administrative and, in a way, legislative, as well as financial, autonomy.

No phenomenon in the field of American politics is of greater significance than the increasing scope, magnitude, and complexity of the tasks that are being imposed upon our national government. This increase in the burden thrown upon the machinery of government affect the legislative as well as the administrative branch. The situation is presented where Congress is called upon to consider and legislate regarding a constantly increasing variety of matters. These matters, moreover, no longer relate to question of general political policy. For the most part they have to do with highly specialized subjects. The task confronting Congress is, thus, one not merely of determining the general policy of the government in respect to the performance of its essential functions, but also of having to make decisions regarding matters which in their variety and scope embrace almost all fields of human activity. Furthermore, after the first decisions are made, Congress is subsequently under the necessity, annually, of considering what provision shall be made in the way of plant, organization personnel, and financial grants for the support and conduct of the machinery that has to be

set up for the enforcement and execution of the policies decided upon.

There can be no question that Congress is staggering under this load. Notwithstanding the fact that during recent years it has been in almost continuous session, and that the rules and practices of both houses have been progressively modified with a view to securing increased dispatch in the conduct of its affairs, it is utterly unable to handle with due ease and promptness even those urgent matters regarding which there is substantial agreement that action of some sort should be taken. Finally, that the situation will grow worse rather than better, is as certain as anything can be.

The foregoing represents a condition of affairs that must give concern to all persons interested in the cause of efficient government. It raises squarely the question as to what shall be done to meet the problems of administration engendered by it. Matters cannot be allowed to drift indefinitely, since, as has been pointed out, the situation tends constantly to become one of increasing gravity. Some positive action of a radical character is required.

**The General Government as a Holding Corporation.** The solution of this problem, it is believed, is to be found in part in the definite adoption by the government of the principle of setting up each of its revenue producing services as a distinct public or quasi-public corporation. By this is meant that each will have its organic act, or charter, providing for its creation and defining its jurisdiction, powers, and duties; its board of directors; its directing staff and subordinate personnel; its own plant, equipment, and other property that it will possess in its own name; and as has been pointed out, its own revenue and expenditure system, its distinct accounting and reporting system, separate from those of the general government; and its own well-defined sphere of activities. Each, in a word, will have all the characteristics of a public corporation.

It is evident that what is here proposed is substantially the adoption by the government of the well-known device of the holding and subsidiary corporations form of organization, with the exception that the latter will get their grants of power directly from the former and the status of principal and agent as between the general government and the incorporated services will be far more strongly emphasized. The general government, as principal, will concern itself with the operations of its agents from the general standpoint of policies and the direction their activities shall take. It will require from its agents the most detailed and complete information regarding their operations. It will, of course, have the formal approval annually of their work programs and budgets of



revenues and expenditures. It will stand back of the subordinate corporations financially in that it will profit by any surplus earnings and be responsible for any deficit resulting from operations. But it will not seek, by formal legislation, to determine in detail the organization and procedure of these bodies, and much less to concern itself with the details of operation.

**Principle of Subsidiary Public Corporations Followed in Cases at the Present Time.** This proposal is by no means as novel or radical as might at first sight appear. It represents substantially the policy adopted by the states in providing for the administration of municipal affairs. Legally, a state can assume direct responsibility for the conduct of municipal affairs in the same way as it does for its other activities. Actually, however, all of the states have wisely adopted the policy of setting up special corporations for this purpose. In like manner, many of the states have provided for the conduct of more purely state activities by setting up what are in effect subsidiary corporations, in the form of boards of education, health, charities, etc. An equally direct illustration of the actual adoption of this proposal is offered by the national government itself. This consists in the provision made by Congress for the government of the District of Columbia, the Philippines, Porto Rico, and the territories and dependencies generally. The administration of the affairs of these territories is as direct an obligation on the part of Congress as that of the operation of the Panama Canal, the construction and operation of a system of railways in Alaska, or the conduct of the postal service. Its legal relation to both of these classes of undertakings is precisely the same. It can, if it chooses, administer their affairs directly, or it can bring into existence subordinate bodies, and delegate to them immediate responsibility, reserving to itself the superior direction, supervision, and control. In the case of the dependencies, Congress has done precisely what it is here urged it should do in the case of those services of the government which have distinct spheres of activities unconnected with the general operations of government, which are in possession of their own income, and in respect to which motives of economy and efficiency would seem to dictate that they be treated as separate entities by having conferred upon them the largest possible measure of legal, administrative, and financial autonomy. Each of these territories has been erected into a subsidiary corporation, with its own property, revenues, expenditures, accounting and reporting systems, its own board of directors, administrative staff and personnel distinct from those of the national government. Each has granted to it large authority to manage its own affairs. In making this large delegation of powers Congress has in no respect lessened its own power to act at any time when it sees fit to do so, or relieved itself from its general responsibility. At any time

it can enact legislation modifying the charter or organise act of the subsidiary corporation. It is always free to pass acts regarding the conduct of affairs in such dependencies, even though such affairs are within the scope of powers of the dependencies. All acts of such subordinate corporations, moreover, must be reported to Congress, and the latter can at any time modify them or set them aside. Careful provision, moreover, is made that each subordinate corporation shall keep an account of its financial and other operations and make report annually regarding them to the end that Congress shall always be in a position to know how affairs are being conducted by its agents. That this policy has given good results in practice, there can be no doubt.

Finally, this policy of setting up special subsidiary corporations for the performance of activities of a commercial or industrial character was the one adopted by the national government during the recent war in providing for the performance of new lines of work into which the war forced it to enter. The most important of such corporations were: the Emergency Fleet Corporation of the United States Shipping Board, the War Finance Corporation, the United States Grain Corporation, the Russian Bureau, Incorporated, of the War Trade Board, the United States Housing Corporation, and the Sugar Equalization Board. The first two of these corporations are still in existence as operating units of the national government.

**Advantages of the System of Holding and Subsidiary Corporations.** The advantages that will result from extending this policy of erecting special subsidiary corporations for the performance of special categories of work to all the revenue producing services of the government are many. First in importance is the immediate relief of Congress from the burden of having to concern itself with the great mass of details, most of which are of a purely administrative and technical character under which it now labours in seeking itself directly to determine precisely how each of these highly specialized services shall be organized, manned, equipped, and operated. This relief will manifest itself especially in respect to the annually recurring necessity that Congress is now under of considering in detail the appropriations that shall be voted for the support of the government. It goes without saying that under existing conditions, with the great and constantly increasing magnitude and variety of time and labour must be devoted by the committees on appropriations of the two houses to the consideration of service estimates and by Congress as a whole to action upon its committees' recommendations, or that this work will be done with constantly decreasing care. Under the proposed plan the greater part of this burden will be performed by the boards of directors of the several subsidiary corporations,

It is of the essence of the proposal that each subsidiary corporation shall have its own distinct budget. This budget will be prepared in substantially the same manner that the budget of the general government is prepared. Estimates of financial needs will be prepared by the directing administrative staff of the service corporation and submitted to the board of directors. The latter will consider these estimates, and on their basis prepare a budget for submission to Congress through the Bureau of the budget. The point may here be made that, inasmuch as, under this plan, Congress will still have the obligation of considering and acting upon this budget, it will not be relieved of any of the responsibility and work under which it now rests. This, however, is not the case. The budget, in the first place by the mere fact that it relates to the operations of a distinct service wholly detached from the general financial operations of the government and presents in one document both revenue and expenditure statements and a balance sheet showing assets and liabilities, gets before Congress the problem of making provision for the service in question in a far more effective way, and one in which it can be more easily handled, than if it were presented merely as a set of items in the general book of estimates. If properly prepared, it furnishes a complete and systematic showing of past operations, present conditions, and proposals for the future. This budget, moreover, instead of coming to Congress as an estimate prepared by persons charged with the administration of the service, is first passed upon and reviewed by a body whose duty it is, acting as the agent of Congress, to exercise a general supervision and control over the acts of such administrative officers. This direct supervision and control, moreover, is exercised by a body technically qualified to pass upon the needs of the service and in constant, direct touch with its operations. Normally, Congress can accept the judgment of this body in respect to details and limit its own participation to that of considering the budget in its general aspects as involving matters of general policy or of major importance. Incidentally, this procedure will have the added advantage that it will simplify by that much the general problem of providing for the revenue and expenditure needs of the government.

From the standpoint of the services themselves, adoption of this policy will mean that the current direction of affairs will be in the hands of a body which cannot fail to be technically better qualified for this work than Congress. This will be due, in the first instance, to the fact that the members of the corporation's board presumably will be selected with special reference to their qualifications for their positions. Their competence in this respect will steadily increase as they gain familiarity with their duties and experience in their exercise. Finally, they will have but one distinct class of duties to perform, while members of Congress are called upon to act upon matters of a wide range.

A further fact of importance is that they will exercise their duties continuously and with a freedom of action that is impossible for Congress. Congress is in session only part of the time. While it is in session, only a small part of its time can be devoted to the affairs of any one service. When it does act it can do so only through the laborious process of legislation. Action once taken can be modified or corrected only after great delay and with much difficulty. The board of directors of a service corporation, on the other hand, is in continuous session. In reaching decisions it can avail itself of the knowledge and judgment of the working staff of the service to a degree that Congress finds it difficult to do. Decisions once made can be promptly amended or revised as experience dictates. Action which often requires months or years to secure from Congress can be taken at once. Flexibility will replace the rigidity which characterizes the present system of Congressional direction of details.

Another important merit of the service-corporation plan of organization is that it would promote in a material way the desirable end of taking the purely business and technical services of the government outside of the domain of politics. The mere fact of separating the organization and operations of these services from that of the general organization and operations of the government would tend to emphasize their non-political character, and would make it easier to resist political pressure in respect to both their work and their personnel. This, of course, is dependent upon the creation of boards of directors, the members of which not only will be selected with reference to their technical qualifications, but will also have a permanency of status that will give to them much the independence of judicial officers, at least in so far as political pressure is concerned. This is a matter to which attention will shortly be given.

A third advantage would be the extent to which the plan would tend to promote the erection of each service so treated into one offering a special career to all of its personnel. A prime characteristic of these services is the extent to which they call for employees possessing technical, as opposed to general, clerical and administrative qualifications. If competent men are to be found for these positions, and retained in them, it is imperative that such men shall not only be paid an adequate compensation, but be afforded an opportunity for advancement in their chosen profession. This can only be done where the technical personnel of each service is carefully classified and a satisfactory promotion system devised and operated. It is not claimed that this cannot be done to a considerable extent under present conditions, but it is believed that it can be better done where each service is given its individual autonomy and the particular problem special consideration. The erection

of each service into a distinct career and the complete segregation of its financial operations will also promote the development of an *esprit de corps* and interest in the service on the part of its personnel that is not now always present. All, from the highest officer to the lowest employee, will know that any benefits resulting from increased economy in the expenditure of funds from increased efficiency in the performance of duties or from securing increased revenue, will accrue directly to the service instead of to the general organization and treasury in which they have but little direct interest. The incentive to increase revenue receipts and to keep down expenses, to practise economy, and generally to conduct affairs in an efficient manner cannot but be far greater than it is under existing conditions.

Finally, the erection of the revenue-producing services into autonomous corporations would relieve these services from all of the provisions of the administrative laws having for their purpose to prescribe, and which, in fact, do prescribe in great detail, the procedure that must be employed by the government services in performing their purely business operations, such as purchasing, contracting, and the like. As regards these operations not only are the conditions to be met by these services different from those confronting the purely spending services, but they are also different as between the revenue-producing services themselves. Under the organization here suggested each revenue-producing service will be able to build up an administrative code that meets its particular requirements.

It must be evident that the central feature of the proposal under discussion is the adoption by Congress of the policy of delegating to a subordinate board of directors the direct responsibility for the exercise of the function of general direction, supervision, and control. The feasibility of the entire proposal is, thus, dependent upon the possibility of erecting boards that can be relied upon to discharge this function in a proper manner. The problem of erecting technical boards that will discharge their duties in an independent, or non-partisan, manner and with sole reference to the proper conduct of the interests placed in their charge, is not a new one to the national government. The leading example of where it has met this problem in a successful manner is the Interstate Commerce Commission. Though the action of this commission has not at all times met with general approval, there can be little doubt that it has performed the work entrusted to it far better than Congress could possibly have done acting directly. It would seem, therefore, that there ought to be no serious trouble in determining the character of the board of directors that should be set up in each case, the qualifications required of member of the board, their terms of office, and the general scope of their powers and duties. It cannot

be emphasized too strongly, however, that whatever the action taken, most careful provision should be made that the subordinate corporation should instal and operate systems of accounting and reporting corresponding to the most approved principles and practices as found in private corporate enterprises, and that its system of operating records and statistics should be so devised as to furnish all essential details regarding the manner in which the affairs of the corporations are being conducted and the results that are achieved from the standpoint of both costs and work done. That provision should be made for an independent audit of their accounts by the Comptroller General, need hardly be said. If these requirements are met Congress will always be in a position to determine the manner in which its agents are performing their duties and to take such further action in the way of exercising its superior powers of direction and control as circumstances may require.

## CHAPTER XII

### ADVISORY COUNCILS

In considering the problem of the proper organization of the administrative branch of a government, and particularly a government such as that of the United States, the important question is presented of the extent to which an advantageous use may be made of councils, composed partly of officers of the government and partly of persons selected from private life, having for their purpose to consider and give their advice regarding the manner in which problems coming before the administrative services for action should be handled.

**Need for Government Services Maintaining Intimate Contact with Private Interests Affected.** In performing their duties, administrative services have, or should have, two considerations always in mind: to make their actions conform to the best interests of the public served; and to work in harmony and co-operation with other services whose operations are in the same general field. One or two illustrations will make the importance of these two considerations clear.

At the present time the national government is engaged in work on a large scale having for its purpose to promote the industrial, commercial, and educational interests of the country. In performing this function a wide range of discretion is open both to Congress in authorizing specific activities and to the administrative services in acting under general authorizations. It is, manifestly, in the highest degree desirable that both of these agencies should in some way learn the desires of the interests served in respect to the work to be undertaken and their opinions regarding the work under way. More specifically, this means that provision should exist by which the services having to do with the promotion of the agricultural interests of the country can learn the wishes and opinions of those interests in respect to the manner in which their welfare can best be promoted; by which the services having to do with the promotion of the commercial and industrial wants of the country can similarly learn regarding the wishes and opinions of commercial and industrial interests; by which the services having in charge the promotion of the cause of education can secure the matured judgment of the leaders of education in respect to how that cause can best be served. At the present time a feeling exists, which in many cases is only too well founded, that the government services

work, as it were, in water-tight compartments, that their attention is so largely devoted to their routine operations that they lose sight of the fundamental purpose for which they exist—service to the public—that, in a word, their methods are bureaucratic and carry with them the evils that the term implies. In the attempt to meet this situation, recent years have witnessed a great development of the movement by national organizations of special interests, either to establish their headquarters at Washington or to provide for special services in that city having for their special function to keep in touch with proposed legislation and the activities of the administrative services affecting their interests, and, affirmatively, to make known their wishes and to urge upon Congress and the administration action which they desire to have taken. Illustrations of this practice are furnished by such organizations as the Chamber of Commerce of the United States, the American Farm Bureau Federation, the American Council on Education, the Federation of American Engineering Societies, the National Health Council, and many others. These organizations perform a very useful service. They do not, however, fully meet the needs of the situation, since they have no recognized authoritative channel for bringing to the attention of the government matters which they desire to have considered. In great part their services are to the constituent members rather than to the government. There is still need of means through which the gap between the government and the interests served may be bridged.

**Advisory Councils the Best Means of Maintaining Such Contact.** This means would be provided by the creation for each of the great fields of governmental activities of a council that would embrace, on the one hand, the heads of representatives of the government services working in that field, and, on the other, representatives of the private organizations the members of which are directly interested in that field of endeavour. Through such organizations it would be possible for the two classes of interests to sit around the same table and by conference reach an agreement regarding the manner in which the matters in which they are both interested might best be promoted. Thus, to bring out more fully the possible services of such an organization, it is evident that if the national government is to do anything in the way of promoting the cause of public education, it should have a program that represents not merely the individual opinion of a bureau head, but also one that commends itself generally to the educational interests of the country. One of the prime functions of a National Council of Education would be the formulation of such a program. In like manner the national government should have a definite program in respect to work in the cause of the promotion of public



health, industry, commerce, agriculture, etc., that commends itself to those interests, and in the formulation of such programs national councils of public health, industry, commerce, agriculture, etc., could render a service such as has been suggested in the case of public education.

### **Advisory Councils as Agencies for Co-ordinating the Activities of Government Services Working in the Same Field.**

Up to the present we have considered only the possible usefulness of national advisory councils from the standpoint of furnishing the means through which the interests to be served and the government services having those interests in charge may be brought together for common counsel. It remains to be pointed out how such councils may serve an equally valuable purpose as correlating agencies where there are a number of services working in the same field or whose activities are of such a character that it is desirable that they should work in close relation with each other. Probably the best example of the need for such a correlating agency is furnished by the services of the government that are engaged in the collection, compilation, and publication of statistical data.

It has been pointed out that the proper method of grouping services is that of bringing together under a common head all services having the same general function rather than that of attempting to concentrate in a single service or department the performance of all activities of the same technical character. The adoption of this principle of organization, as applied to the statistical work of government, means that this work will be scattered among the several services having to do with the matters to which the statistical data collected relate. Under this system the services for the collection of railway statistics will be attached to the Interstate Commerce Commission, that for the collection of vital statistics to the Public Health Service, etc. The system, in other words, means the direct opposite of that under which the attempt is made to centralize in one service responsibility for all the statistical work of the government. Though, for reasons elsewhere stated, this scattering of the statistical work of the government is necessary in the interest of having this work well done, it is desirable that there shall exist some means by which the services engaged in statistical work shall keep in touch with each other's work for the purpose of assuring that duplication of effort does not obtain and that so far as practicable uniform methods of classification and presentation of data are followed. It is, for example, desirable that statistics of production as collected by the Bureau of the Census and other services, statistics of imports and exports, and statistics of transportation, in so far as they reveal the movement of commodities by kinds of articles, shall be collected and published according to a classifica-

tion that will permit of these several classes of data being brought into correlation with each other. The existence of a National Statistical Council will provide the agency through which these desirable ends may be obtained. And generally the national advisory councils will have as one of their essential functions the furnishing of the means by which all of the government services whose activities fall in their fields may currently keep in touch with each other's operations and take the steps necessary to ensure that they are working harmoniously toward the attainment of a common end.

**Advisory Councils as an Aid to the President and to Congress in Formulating and Acting upon Budgetary Proposals.** In concluding this account of the possible usefulness of a system of advisory councils, mention should be made of the valuable service that they could render both to the President in formulating his annual budget and to Congress in acting upon such budgetary proposals. Under present conditions these bodies have to rely almost wholly upon the representations of the interested services. With a system of councils such as here suggested the President, if he has any doubt about the desirability of a service recommendation for authorization to continue a certain line of work or to engage in a new activity, can refer the matter to the appropriate advisory committee for its opinion. He may, indeed, request a council to make a general report upon the work program organization, and methods of a service. The fact that a considerable number, and possibly the majority, of the members of the committees will be persons not directly connected with the government will tend to ensure an unbiased report. To a certain extent these councils may serve as bodies to assist the President in the settlement of jurisdictional disputes between services. The fact that questions of this kind had been submitted to independent bodies of this character would give weight to the President's budgetary recommendations and make easier the task of Congress in passing upon such proposals. The status of these councils would be that of independent establishment reporting directly to the President. The latter would keep in touch with them through his Bureau of the Budget. The councils would, thus, have the general character of special staff agencies of that bureau and the President.

**Requisites of a System of Advisory Councils.** In the foregoing we have sought to point out the two great services that may be rendered by a system of national advisory councils. If this system is to work successfully certain conditions, which will now be pointed out, must be met.

1. The first and most important of these is that the function of these councils should be wholly advisory. In no case should they

have any administrative powers or those of giving orders of a mandatory character. Their duties should consist exclusively in examining into questions falling in their respective fields and of formulating and making known the conclusions reached by them as the result of such inquiries. No principle of administration is more important than that administrative authority should not be divided. It should, thus remain to the services affected or to the administrative officers exercising superior directing power over these services, to act upon the recommendations emanating from the councils.

2. The second is that, for reasons already given, the councils shall embrace two classes of members—those representing the government services, who may be termed official members, and those representing outside interests, who may be designated as non-official members. Both classes of members should be appointed by the President and hold office for a fixed term, or at the President's pleasure. In the interest of economy, the office of councillor should carry with it no compensation in the way of salary, though provision should be made for the payment of the expenses of members in attending meetings or in otherwise discharging their duties.

3. Thirdly, provision should be made for meeting of the official members independently of the council as a whole. There will be many cases when it is desirable to come together for the purpose of discussing their common problems. It may even be desirable that they shall meet regularly at stated intervals for this purpose. It is desirable that the whole council shall meet only at comparatively infrequent intervals, possibly only once or twice a year.

4. Fourthly, provision should be made for a permanent secretary at an adequate salary whose duty it shall be to serve as the executive officer of the council, keep an accurate record of the proceedings, attend to all matters of correspondence, have the custody of its files, etc. In some cases it may be deemed advisable to give to the council authority to employ temporarily or permanently technical staff assistants to prosecute certain inquiries, assemble data, etc. These inquiries, it need hardly be stated, should relate exclusively to matters of general policy and procedure and not to matters falling within the sphere of the other services of the government. The National Statistical Council, for example, might desire to make a study of the use of mechanical appliances in the handling of statistical data, the methods of operation of foreign statistical services, the problem of the classification of data for statistical purposes, etc. It may also be found desirable that the council shall publish a journal or bulletin in order to make known the results of its deliberations or to serve as the means through which the work of the several services falling within

its jurisdiction are brought to the attention of the public. It is not by any means suggested that the councils should do much in this direction; and, certainly, they should not engage in activities of this character on any extended scale at the outset. Should work of this kind be undertaken, all those engaged in it should be under the direct supervision of the permanent secretary and executive officer of the council. Whether a council publishes a bulletin or not, it should act as a general bureau of information regarding the activities of the government falling within its field.

In seeking to point out the possible usefulness of advisory councils as integral parts of the administrative machinery of the national government, it is not by any means suggested that provision should at once be made for a large number of such bodies. The desirable policy would be that of creating one such council and, on the basis of the results secured from it, reach a decision regarding the extension of the system.

It is of interest to note that usefulness of councils of the character described has been recognised to a certain extent by the national governments. The act of July 1, 1902 reorganizing the Public Health Service, provided for an annual conference of the health authorities of the states and territories and the District of Columbia under the direction of the head of that service and conferred upon that officer power to call special conferences when the interests of the public health might require. The War Department, while not creating a formal organization for the purpose, has sought and secured the assistance of the leading national industrial associations in working out plans for the mobilization of the industrial resources of the country in case of war. The Department of Commerce has been especially active in taking action of this kind. During the past year over twelve hundred group conferences of officials of that department and representatives of the leading industrial and commercial organizations were held for the purpose of considering problems of industry, commerce, and transportation, and 343 permanent committees have been created for giving advice and assistance to the department in the performance of its work. Through these conferences and committees the department has been able to accomplish an enormous amount of good in the way of standardizing practices, simplifying methods, and eliminating waste, and generally in putting the conduct of business upon a more efficient basis. One of the most effective of these committees is the Advisory Statistical Council, created in 1918, to act as an advisory committee in respect to matters having to do with the collection, compilation, and publication of the Fourteenth Census data. The Bureau of the Census, in addition, has created two special advisory committees to aid it in the collection and publication of statistics of municipal and state finances. These efforts but indicate the possibilities for good that lie in this direction.

## CHAPTER XIII

### SOME TOOLS OF GENERAL ADMINISTRATION

In the preceding parts we have sought to discuss only those factors of public administration that are of a general or fundamental character. It is hardly necessary to say that the actual work of administration involves decisions with respect to many other matters of lesser importance. The problems of procedure required in order to put into effect general decisions must be worked out. These problems are, for the most part, of a highly technical and special character. They have to do with such matters as the adoption of systems for the handling and filing of correspondence, the devising of the forms to be made use of and the manner of their use, the determination of the nature of the records to be maintained, the form of reports, etc. Any attempt to enter into a consideration of these technical phases of administration would be utterly out of place in a work such as the present one that is intended only for the use of students of politics and general administration. There are, however, certain devices the adoption and use of which will contribute so greatly to efficiency in operation that it is thought desirable to give to them at least cursory attention. This is believed to be all the more desirable, since nowhere, so far as the author is aware, have they received the attention that their importance demands, and certainly, in no government with which the author is familiar, are they employed as they should be.

To these devices the author has given the generic term of "Tools of Administration." In a general way all instruments of administration, such as forms, records, etc., come under this head. Many of the most valuable of these tools have already been mentioned and their use described in our consideration of the general problems of administration; for example, the budget, personnel and efficiency records, financial statements and reports, inventories, property, records, etc. All that it is desired to do here is to indicate and point out the usefulness of certain other devices or instruments. These are:

1. Administrative codes
2. Service monographs
3. Service manuals

- 4. Outlines, charts, and maps of organization and personnel
- 5. Work assignments and progress reports
- 6. Administrative reports
- 7. Official Gazette

**Administrative Codes.** A feature that distinguishes the problem of the administration of public services from that of private undertakings, is that not only must all of their acts be in strict conformity with law, but, to a considerable extent, their forms of organization, the manner of recruiting and handling their personnel, and even their detailed methods of procedure are laid down for them by formal acts of the legislative branch of the government. One of the first requisites of a public administrator is, therefore, that he shall be familiar with this legislation in so far as it affects his service. Unfortunately, in the case of the national government at least, and, it is believed, in most of our states and many of our municipal and local bodies, this legislation is not to be found in one place in the statute books or so stated that its existence and provisions can be readily determined. For the most part it exists in fragmentary form, scattered through the statutes without any pretence of methodical statement or agreement. In many cases, in the national government, it is in the form of special clauses or riders to appropriation acts. In few cases do its provisions represent a careful study of the administrative needs of the services to which they relate. More often than not, they were enacted to meet some special need which later wholly disappeared. To make matters worse, there has been little or no attempt to secure uniformity in respect to the manner in which identical requirements of the several departments or services shall be met.

The result of this is not only to make it difficult for the administrator to determine the legal obligation that he is under in managing the affairs of his service, but also to introduce confusion into the whole work of administration. More than this, it adds greatly to the burden of the legislature itself in determining whether its orders are in fact being properly carried out and in framing additional legislation.

There is but one way in which this condition of affairs can be corrected; namely, by bringing together all this scattered legislation having to do with administrative matters, subjecting it to careful study and revision with a view to the elimination of inconsistencies and making its provisions conform to present requirements, rearranging the provisions so that all having to do with the same matter are brought together and presented and classified according to some consistent plan, and then reenacting the whole as a single consolidated administrative code. Such a revision and codification of administrative law constitutes one of the prime necessities

if an efficient administration of the affairs of the national government is to be had. This need has been so clearly stated by the Director of the Bureau of the Budget, in a letter of transmittal accompanying a compilation made by him of the laws governing the preparation of estimates, appropriations, and financial reports, that his characterization of the evils of existing conditions and how an administrative code would correct them is reproduced, even though it involves going over some ground already covered. In this document he says:<sup>1</sup>

A detailed examination of these provisions of law—nearly nine hundred in number—discloses an unco-ordinated mass of financial legislation enacted from time to time to meet particular situations and conditions. They may be said to have grown up by a process of accretion. Some of them are now obsolete, while many others are only partially applicable to present-day conditions. Some of them were enacted over a century ago, when the government organization was very small and when Congress was, through its committees, exercising almost complete control over the administration of public finance. The same might be said as to the laws governing accounting, audit, public contracts, the purchase and sale of supplies, and the organization, powers and duties of organization units of the Government and of the authority of administrative officers. At no time have these laws been considered by Congress as a whole, nor were those relating to one organization unit enacted in co-ordination with those of another. Some bureaus are loaded down with administrative limitations and restrictions, while others are left with only a few governing regulations.

This body of law presents a picture of past attempts of Congress to control the administration of public finance through legislative enactment. Administrative officers were thus bound by certain rules and regulations in the form of statutory provisions, in the preparation and presentation of estimates of appropriations, in the use of the appropriations, and in reporting in detail to Congress as to how the appropriation was spent. The whole process was done and—with the exception of the estimates—is now done without any definite and unified plan of procedure, and without

<sup>1</sup>Communication from the President of the United States, Transmitting Laws relating to the Estimates of Appropriations, the Appropriations and Reports of Receipts and Expenditures, compiled by the Bureau of the Budget, 1921, p. 67 Cong. H. doc. 129, December 5, 1921.

any possibility or intelligent comparison of the financial administration of one bureau with another.

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The codification herewith submitted is intended to be only a partial compliance with section 210. It is both impracticable and inadvisable to recommend changes in these laws at this time. The Bureau of the Budget, in the short time since its organization, has had the opportunity to do no more than to compile them. Further more the laws here presented constitute only a part of the Federal administrative laws. The whole body of administrative law is now in need of revision and codification in order to harmonize it with the operation of the new budget system and with the present-day needs of the Government.

One of the essential tools of administration that should be possessed by all governments is, thus, a carefully compiled administrative code. It might seem that the preparation of such a document would offer little trouble. In point of fact, in the case of a government such as that of the United States, it is an undertaking of the first magnitude. This can be seen from a consideration of the following facts.

In the first place it is a matter of no little difficulty to determine what constitutes administrative law and what, therefore, should be the scope of the codification. Practically all public acts contain provisions setting forth the manner in which their provisions shall be enforced. A reading of such acts as those regulating interstate commerce, the anti-trust laws, the land laws, etc, shows that their provisions are partly of a substantive and partly of an adjective character. The provisions of the latter character are so intimately interwoven with those of the former that it is wholly impracticable to isolate and state them separately in an administrative code. Even were it feasible it would not be advisable, since that would mean that the provisions would appear twice upon the statute books or that the law upon a particular subject would appear partly in the general statutes and partly in the administrative code. The suggestion has sometimes been made that the whole text of such laws should be included in the administrative code. If this were done that document would embrace a not inconsiderable part of the public law and the purposes of its compilation would be largely defeated.

The difficulty here presented can be met in the following way. It will be remembered that in our consideration of problems of organization a clear distinction was drawn between the institutional or housekeeping and the functional activities of services. The former have to do with the work that has to be done in order



that the services may function as institutions. They relate to such matters as the maintenance and operation of plant or quarters, the securing of personnel, the purchase, custody, and issue of supplies, the keeping of accounts, the preparation of reports, etc. The accounts and reports relate to work for the performance of which the service is maintained. It was further pointed out that it was desirable that the performance of activities of the first kind should be entrusted to special divisions which should constitute the subordinate units of organization of a bureau of general administration. Precisely the same distinction should be observed in determining the contents of an administrative code. This means that two classes of administrative law should be recognized; that having to do with the institutional activities of the government and that having to do with the enforcement of the substantive provisions of public law. Only the first class should be contained in the administrative code; the latter should appear as integral parts of the acts to the enforcement of which they relate. If this is done there is brought together in one compilation all of the provisions of law which define the powers and duties of the bureau of general administration and its subordinate divisions.

To the foregoing body of law should be added all those acts which provide for the creation of administrative services, define the general powers and duties of their chief officers, and lay down the general rules or principles to be followed by them in performing their duties. These, provisions it will be observed, relate to the field of general administration as distinguished from the provisions of the acts the enforcement of which is entrusted to such services.

Another question of great importance relating to the scope of an administrative code is that of determining those provisions governing administrative matters that should be incorporated in the code and those which should be left to administrative regulations. There can be no question that the work of administration has been seriously handicapped by the legislature seeking to regulate the details of administrative organization and procedure. The result has been to introduce too great rigidity in the manner of conducting public affairs. In no small degree the red tape complained of in performing government work is due to the existence of these provisions. In preparing a code this fact should be kept constantly in mind, and every effort should be made to include in the code only those provisions which are of a general and fundamental character, the regulation of details being left to the discretion of administrative officers or central administrative agencies having to do with the institutional activities of the operating services.

Having determined the scope of the administrative code, there is next presented the problem of assembling and presenting the material to be embraced in it in proper form. As regards this, it

is to be noted that a work of codification is something quite different from that of compilation. The latter represents merely the bringing together, without other change, of material relating to a subject. Codification, on the other hand, means that this material will be welded together in such a way that inconsistencies will be eliminated and the provisions regarding each topic set forth as a single statement instead of in the form of original acts, supplemental and amending acts, special provisions of acts relating to other subjects, etc. The performance of this work requires the highest order of technical draftsmanship as well as a thorough knowledge of subjects treated.

Another question requiring answer is that of the order of arrangement and classification of material that should be adopted. As regards this, it would seem that the method of treatment employed in the present work would be as satisfactory and logical as any. If this were employed the code would contain a number of distinct parts dealing respectively with the matters of general administration and organization, personnel, material or supply, and finance. In the first part would be given the organic acts providing for the organization and defining the powers and duties of the departments, bureaus, and other services. Part two would give all provisions of law having to do with the recruitment, classification, promotion, etc., of personnel or the determination in any way of employment conditions. Part three would be largely given over to provisions of law governing contracting, the procurement, warehousing, issue and use of materials or supplies, etc. Part four would embrace all provisions regulating the manner in which the administrative services shall keep their accounts, the character of financial statements to be rendered, the duties of the comptroller and auditor general in respect to the control of treasury receipts and issues, the audit of accounts, etc. Finally, in part five would be given under appropriate heads certain miscellaneous provisions which did not find a place in any of the other preceding parts. A special advantage of this arrangement is that it would correspond to the organization of the government for the performance of institutional duties. Each class of institutional services, such as the central personnel agency and the divisions of personnel of the operating services, the central purchasing agency and the divisions of supply of the operating services, the office of comptroller and auditor general and the accounting offices of the operating services etc., would find in one place the provisions of law regulating the matters with which they had to deal.

Finally, there remains the important question as to whether the codification shall content itself with a methodical statement of existing provisions of law or shall represent a thorough revision of such provisions with a view to making them conform better to

the requirements of an efficient system of organization and procedure. That the codification should take the latter form, there can be no question. In point of fact, where the work of codification is being attempted for the first time, it is almost impossible to accomplish it without making more or less important changes in the provisions of the law as it exists. It has been pointed out that one of the distinguishing features between the problem of administration having to do with functional activities and those relating to institutional activities is that, while the former are different for each class and, therefore, for each service having them in charge, the latter is more or less the same for all services. It was, furthermore, made clear that it is highly desirable that the organization and procedure for these institutional activities should, as far as possible, be uniform throughout the government service. As already stated and as shown in the quotation from the report of the Director of the Bureau of the Budget, on the compilation of the laws regarding estimates, appropriations, and reports, nothing approximating this condition now obtains in the national government. Little would be accomplished in the preparation of an administrative code for that government unless advantage were taken of the occasion to determine, in the light of modern knowledge regarding proper administrative practice, the standard provisions that should generally apply to the organic acts.

It is evident that if codification is undertaken upon this basis, the task is one of great magnitude. It means, in fact, a thorough study of the whole problem of public administration to determine the provisions that should be adopted to govern the organization of the government services and the procedure that should be employed in performing their institutional duties. In short, the whole administrative system of the government should be upon the operating table for the purpose of determining in what respect it fails to conform to proper requirements and what is needed in the way of redrafting of existing provisions of law for the purpose of bringing them into conformity with approved principles and practices.

Notwithstanding the size of this project it is one which should be entered upon by all governments, since until this work is accomplished it is impossible to have full efficiency in the conduct of public affairs. The procedure employed in putting through this work should probably be that of entrusting the work in the first instance to the bureau of general administration, which, in the case of the national government, means the Bureau of the Budget. This bureau should call to its assistance representatives of the central agencies having in charge the specific classes of institutional duties. The results of their co-operative work should be embodied in a draft to be submitted to the operating services for criticism and suggestions. A revised draft should then be submitted to the legislature for its

action. Due to the special character and scope of the proposal, it would probably be wise for the latter body to provide for its consideration by a special joint committee of the two Houses of Congress. The committee would probably want to hold hearings on the bill and take other means to satisfy itself regarding the decisions to be reached. Finally, of course, would come congressional action upon the measure agreed upon.

It will be seen from what has just been stated that this work of codification is intimately related to that of the reorganization of the administrative services. In point of fact, most of the states that have undertaken the latter have embodied the results of their work in what are designated as civil administrative codes. In most cases these codes embrace little more than the provisions of part one of a complete code, since they do not go further than provide for the organization of the administrative branch. One state, however, Nebraska, has gone far beyond this. Its code contains not only all provisions of law regarding the institutional activities of the administrative services but also most if not all of the substantive and adjective provisions of the laws the enforcement of which is imposed upon them. The most complete administrative code that has come to the attention of the writer is the one adopted by the Philippine Government in 1917. It is a volume of 1282 pages and appears to have been exceptionally well done.

**Service Monographs.** The first essential to efficient administration is full knowledge of all the facts that affect or control in any way the work to be done. Neither legislators nor administrators can properly perform their functions of determining what work shall be undertaken, what funds shall be devoted to such work, what machinery shall be created for its execution, what rules shall govern the operation of this machine, and what means shall be employed for exercising that rigid direction and supervision over the actual conduct of affairs which must be had if efficiency and economy is to be secured, unless they have clearly before them what provision has already been made in respect to these matters, and what facilities, in the way of plant, organization, and personnel, are already available.

Where the undertaking is a small one, this information can readily be acquired by personal inquiry and observation and when acquired can be retained in mind. Where, however, as in the case of a government, the undertaking is one of any magnitude or complexity, it is imperative that some system be employed by which this information may be assembled and presented in such form that it may be readily available. Of no government is this more true than of that of the United States. Of all undertakings, none in the United States and few, if any, in the world approach it in magni-

tude, complexity, and importance. Yet until it was undertaken by the Institute for Government Research as described below, no adequate effort had ever been made to list the several administrative services of the government, describe their organization and activities, and set forth the provisions of law governing their operations. Each branch of a service was familiar with the specific duties, regulations, methods, etc., governing its particular work, but was more or less unacquainted with conditions in other branches. If Congress or superior officials desired information regarding the organization and work of any particular service under their jurisdiction, they were compelled to secure this information by personal inquiry or special investigation. Though responsible for the proper organization of these services, their co-ordination into a logical system, the distribution of duties among them, and the employment of the most effective and economical methods of work, they were without that complete picture of their legal obligations, activities, organization, and methods of work as a whole, which alone make it possible for them adequately to meet such responsibility.

Much the most effective means by which this information can be made known is through the preparation of a series of studies, to which is here given the designation of, "Service Monographs," that will give, according to a uniform plan, a complete and detailed description of each service. More specifically, each monograph should give for the service to which it relates: (1) The history of its establishment and development; that is, the circumstances or reasons leading to its creation, the changes that have taken place in its official status, as for example, when it has been changed from a division to a bureau, transferred from one department to another, or consolidated with another bureau; the development that has taken place through the assignment of new work, etc.; (2) a statement of its functions, described not only in general terms but also by detailing the specific activities engaged in order that it may perform its general function; (3) a description of the manner in which it is organized for the performance of these activities; (4) a description of the character of the plant, if it has need of physical facilities other than office quarters, (5) a compilation of, or references to, the laws and regulations governing its operations; (6) financial statements showing its appropriations, expenditures, and other data for a period of years, and (7) a full bibliography of the sources of information, official and private, bearing on the service and its operations.

A moment's reflection will show the great value of such a series of monographs in the actual work of administration.

To executive officials they offer valuable tools of administration. Through them, such officers can, with a minimum of effort, inform

themselves regarding the details, not only of their own services, but also of others with whose facilities, activities, and methods it is desirable that they should be familiar. Under present conditions services frequently engage in activities in ignorance of the fact that the work projected has already been done, or is in process of execution, by other services. Many cases exist where one service can make effective use of the organization, plant, or results of other services, had they knowledge that such facilities were in existence. With the constant shifting of directing personnel that takes place in the administrative branch of the national government, the existence of means by which incoming officials may thus readily secure information regarding their own and other services is a matter of great importance.

To members of Congress the monographs should prove of no less value. At present these officials are called upon to legislate and appropriate money for services concerning whose needs and real problems they can secure but imperfect information. That the possession by each member of a set of monographs, such as is here described, would be a great aid to intelligent legislation and appropriation of funds, can hardly be questioned.

To the public, finally, these monographs will give that knowledge of the organization and operations of their government which they must have if they are properly to exercise their function of bringing to bear an enlightened public opinion upon the conduct of governmental affairs.

One further fact regarding these studies should be noted. They should be wholly descriptive in character. No attempt should be made in them to subject the conditions described to criticism, or to indicate features in respect to which changes might with advantage be made. While they would make no direct recommendations for improvement, they could not fail greatly to stimulate efforts in that direction. Prepared according to a uniform plan, and setting forth the activities, plant, organization, personnel, and laws governing the several services of the government, they would automatically reveal, for example, the extent to which work in the same field is being performed by different services, and thus furnish the information that is essential to a consideration of the great question of the better distribution and co-ordination of activities among the several departments, establishments, and bureaus, and the elimination of duplications of plant, organization, and work. Through them it would also be possible to subject any particular feature of the administrative work of the government to exhaustive study, to determine, for example, what facilities in the way of laboratories and other plant and equipment exist for the prosecution of any line of work and where those facilities are located;

or what work is being done in any field of administration or research, such as the promotion, protection, and regulation of the maritime interests of the country, the planning and execution of works of an engineering character, or the collection, compilation and publication of statistical data, or what differences of practice prevail in respect to organization, classification, appointment, and promotion of personnel. Did they do nothing else, they would furnish the information absolutely essential to the Bureau of the Budget in performing its duties of scrutinizing the requests of the operating services for the grant of funds or authorizations to engage in new activities and in seeing that the funds granted are efficiently expended.

Though the need for such monographs is most evident in the case of the national government, they would serve an equally valuable purpose in the case of the individual states and the larger municipalities. This has been recognized to a certain extent by a number of cities, which have prepared year books describing their governments. In no case, however, have these descriptions been adequate,<sup>2</sup>

**Service Manuals.** The purpose of Service Monographs is to give that general information regarding the history, activities, organization, etc., of the several services which it is desirable that all persons having to do with public affairs should have. These studies should be supplemented by another series to which the designation is here given of "Service Manuals," having for their purpose to set forth in detail for each service a compilation or codification of all the laws, rules, and regulations governing the organization and work of the service and a description, with accompanying forms, of the methods employed in conducting its operations. The arrangement should be topical. Each branch of work, such as accounting and reporting, the purchase, custody, and issue of supplies, the recruitment, promotion, etc., of personnel the maintenance of property records, the handling and filing of correspondence etc., should have its chapter, which could be issued as separate. In setting forth these rules and reproducing the forms employed, care should be taken in all cases to describe not only the procedure to be followed but also the purpose of each operation. The manuals, in a word,

<sup>2</sup>Properly these monographs should be prepared by the bureau of general administration working, of course, in co-operation with the services described. Due to the fact that the Bureau of the Budget of the national government has, as yet, had no funds placed at its disposition with which to do this work, the Institute for Government Research, of which the writer is Director, has undertaken the preparation of the series of services monographs for that government. Forty-eight of these monographs have been prepared and published and it is expected that the series will soon be completed.

should be of such a character that any one could readily determine from their perusal precisely how each service administers its affairs.

The existence of such a manual for each service is necessary both as an instrument of control and as a tool of administration. It is the duty of the superior authority, the legislature, the chief executive, or the head of the department, in whom is vested the determination of what work shall be undertaken and what funds shall be appropriated for its execution, to assure itself that its agent, the administrative service, is performing its duties in an efficient manner. It cannot meet this obligation unless it has before it a clear and comprehensive statement of the methods of administration that are employed by such agent. The first great service rendered by a manual of business procedure is, therefore, that of enabling the superior authority to assure itself that its agent is making use of proper methods in discharging its duties. With this information in this available form, it can subject such methods to critical study, either directly, or by having them passed upon by specialists in the field of administrative procedure; and, on the basis of such study, can take such steps as in its opinion are necessary to make the procedure employed conform to most approved practices.

The value of the manual as a tool of administration is no less great. It is, in the first place, by far the most effective means of instructing all employees in their studies and in ensuring rigid adherence to the procedure adopted. Its preparation ensures that each step will be passed in review, explained, and justified. It is practically impossible for a service which is not making use of a service manual to attempt the preparation of such a document without bringing to light features which it will be found desirable to change. The mere act of preparing a manual will, in many cases, result in the effecting of marked improvement in methods previously employed.

In the second place a manual gives to the director that information regarding methods in his service which he must have if he is properly to perform his duty of supervision and control over the conduct of work under his direction. Again, the publicity resulting from making known business methods constitutes a strong moral incentive to the use of methods which will stand the test of scrutiny and criticism. When the business methods employed in a service are not known outside the service, there is little apprehension that they will be subject to adverse criticism, and the incentive above mentioned is lacking.

Finally, if the practice of reducing business procedure to manual form is generally adopted by the services of a government, unequalled facilities will be afforded for the improvement of methods through the opportunity that is thereby afforded for services to



study the methods of other services, to check them against their own, and to make improvements when it is found that other services have evolved superior practices. Especially will this opportunity for improving methods be apparent if the manuals for the several services are compiled according to a uniform plan of arrangement and treatment of material. Of the value that such manuals will be to the Bureau of the Budget of the national governments or the bureaus of general administration of other governments, it is unnecessary to speak.<sup>3</sup>

**Outlines, Charts, and Maps of Organization and Personnel.** In our consideration of Service Monographs as tools of administration it was pointed out how desirable it was that all persons having to do with the administration of public affairs should have full and detailed information regarding the manner in which the government with which they are concerned is organized for the performance of its duties. In the present section consideration is given to the specific means by which this information can best be compiled and presented for use. These consist in the preparation of what are known as outlines, charts, and maps of organization and personnel.

Of these, the outline of organization constitutes the primary presentation; the other two, the charts and maps, merely serve the function of illustrations in order to picture more vividly conditions and relationships. The purpose of an outline of organization is to show how a service, department, or the government as a whole is

<sup>3</sup>Only to a limited extent have the services of the national government appreciated the value of manuals such as have been described. Those whose work is of a technical engineering character have in a number of cases prepared manuals for their field force. Few if any services have, however, prepared manuals of general business procedure. A few cities have prepared excellent manuals of their accounting procedure. The best that have come to the attention of the writer are the "Manual of Accounting and Business Procedure of the City of New York," issued by Herman A. Metz, Comptroller, 1909; and "Manual of Accounting, Reporting and Business Procedure of the City and County of Philadelphia," John M. Walton, City Comptroller, 1914. The Institute for Government Research has a complete manual covering all phases of its business procedure.

<sup>4</sup>In the preparation of the present section large use has been made of the report, prepared by the present writer, while a member of the President's Commission on Economy and Efficiency, and submitted by that body to the President, entitled "Report to the President on the Organization of the Government of the United States as it Existed, July 1, 1911." This report, which set forth the organization of the national government through the use of the system of outlines of organization entitled "Message of the President of the United States on Economy and Efficiency in the Government Service, 62 Cong., H. doc. 458. In a number of cases it has not been practicable to indicate by quotation marks when the language of the report has been closely followed.

organised, by listing all of its subordinate units in such a manner as to exhibit their relations to each other from the standpoint of the general line of authority; that is, so arranged and classified as to indicate, on the one hand, the more comprehensive unit of organization of which any given unit constitutes a part, and, on the other hand, the subordinate units of organization covered by such given unit. By a unit of organization is meant, not merely such a formal organization as a bureau, a division, or a section, but all further subdivisions which comprise reasonably distinct groups of employees required for the performance of special duties; all plant or operation units, such as quarters specially devoted to the performance of particular kinds of work, vessels, warehouses, etc. A properly prepared outline of organization should show, as one of its essential features, everything in the nature of a shop, laboratory, photographic gallery, blue print room, depot, etc., and every point in the field at which a station is maintained or work is done. Failure to indicate these will lessen greatly the value of the outline, since one of its most important objects is the careful indication of the existence of such establishments. It is only as these final working units are shown that a real picture here recommended, and transmitted to Congress by the President and published in two volumes, embracing something over 1500 pages, is obtained of the manner in which the government services are actually organized for the performance of their work. And it is only as information of this character is secured that it becomes possible to examine into the extent to which duplication or overlapping exists within the services of the same department or within the government as a whole.

Thus, for example, the outline of organization for a given service or department will bring out the extent to which such service or department is maintaining at Washington a number of working units of the same character, such as garages, carpenter shops, blue print rooms, etc. This information will raise the question with such services or departments as to whether there is any real need for such independent units performing the same functions and whether an economy cannot be realized by abolishing some of them and entrusting the work to those remaining, or by distributing the work to be done between the different units according to its character so as to avoid the necessity of duplicating expensive equipment. Whether anything can be done in this direction without lessening efficiency is a matter wholly dependent upon conditions. The preparation of the outlines, however, will at least serve the purpose of bringing to the attention of those in authority the existence of such units, and thus of laying the basis for a careful investigation into the subject.

The foregoing has reference especially to the organization of the services at Washington. It is even more necessary that the organi-

zation of services outside of Washington should be shown in corresponding detail. As regards these services, there should be shown in the outline of organization for each services, not only the name and location of each station, or point at which the service maintains an agent or is carrying on work, but also the units of organization within such stations. Thus, for example if the field work of a given service has, as its primary units of organization, certain inspection or operating districts, these districts should be set out in the outline and all substations existing within them should be indicated. Furthermore, where these districts or substations maintain or operate depots, warehouses, vessels, lighthouses, and the like, each one so maintained should be set up as an organization unit in its proper place. Wherever inspection services are maintained, they should be indicated as organization units, with the word "travelling" in parenthesis in order to show that they have no fixed station. Wherever there are at any station different institutions, such as depots, shops, hospitals, etc., these should be indicated as subordinate units in order that a complete picture may be furnished of the scope and character of the units comprehending them.

For many reasons an outline of organization should be carried to its logical conclusion, namely, that of showing the individual employees constituting the working force of each final unit of organization. The character of an outline of organization prepared on this basis may be illustrated by the following outline of organization of the Home for the Aged and Infirm, one of the organization units of the Government of the District of Columbia, as it existed in 1911.

#### OUTLINE OF ORGANIZATION: HOME FOR THE AGED AND INFIRM

Organization units	Employees	
	Number	Salary
1. Superintendent.....	1	\$1200
2. Medical Department		
1. Physician.....	1	480
2. Nurse.....	1	360
3. Housekeeping		
1. Matron.....	1	600
2. Cook.....	1	600
3. Baker.....	1	540
4. Male Attendants.....	2	560
5. Cook.....	1	300
6. Female attendants.....	2	300
7. Seamstress.....	1	240
8. Cook.....	1	180
9. Servants.....	3	144

4. Garden, farm and stables		
1. Farmer.....	1	540
2. Farm hands.....	3	360
3. Dairyman.....	1	360
4. Hostler and driver.....	1	240
5. Care of building		
1. Engineer.....	1	900
2. Engineer.....	1	720
3. Engineer.....	1	480
4. Engineer.....	3	300
6. Miscellaneous		
1. Clerk.....	1	900
2. Blacksmith and woodworker.....	1	540
3. Laundryman.....	1	540
4. Tailor.....	1	360

A glance at this outline organization must make evident how valuable a tool it would be in the hand of all superior officers having responsibility for making decisions in respect to its support or the extension or contracting of the scope of its operations. Especially is this so when the organization unit is a field station or institution located at a distance from the seat of government. It is, indeed, difficult to see how, for example, the director of the Public Health Service, having responsibility for the operation of the large number of hospitals scattered over the country, or for the head of the customs services, having charge of the operation of the several score of customs houses or districts located at various points, can properly supervise the work of these units or intelligently pass upon questions constantly arising regarding their organization, work, and personnel without having such information,

Manifest as this must be, it is doubtful whether there is a single service of the national government that has provided itself in any systematic way with this most valuable tool of administration. Only in exceptional cases does the head of a service at Washington know in detail the organization of his subordinate units in the field. In many cases he has no clear picture of the organization of his service at Washington. And in this respect the government of most of our states and cities are probably in the same situation.

It is to be noted, furthermore, that the information furnished by these outlines is urgently needed by the administrative officers of services other than the ones to which the outlines relate if they are to avoid the duplication of organization and plant and make use of the facilities of their fellow services. Of conditions as regards this point, the President's Commission on Economy and Efficiency, in the report referred to, has the following to say:

At the outset of its work the Commission was impressed with the fact that the Congress, the President and the ad-

ministrative officers were attempting to discharge the duties with which they are entrusted without sufficient knowledge regarding the instrumentalities through which these duties are to be performed. While it is true that officers of bureaus, divisions, etc., have information regarding the organization of their services, it is only in exceptional cases that such information has been compiled in a form to be readily available to others. Each service consequently has had to conduct its affairs without adequate knowledge regarding conditions anywhere.

As a result, administrative officials have been called upon to discharge their duties without that full knowledge of the machinery under their direction which it is imperative they should have in order to exercise effective administrative direction and control. They have not had full information as to the existing agencies, such as stations, laboratories, shops, divisions, etc., in their own services, much less what agencies existed in other services that might be used instead of creating similar agencies in their own services. Frequently Congress has been compelled to legislate without the complete data it should have if the most advantageous action is to be had. Finally, the people have been without that information necessary to accurate judgment regarding the manner in which their representatives, legislative and executive, are discharging their duties.

It is to the lack of this information that must be attributed in part the present condition of affairs, where stations, shops, and other units are being maintained which perform no useful function, or none of sufficient importance to warrant the expense of their operation; where the most effective use is not being made of such services as should be maintained; where co-operation and consequent economy between services is a matter of chance or personal effort on the part of individuals, and where different services, performing the same or closely allied functions, are being operated independently of each other, thus duplicating in an uneconomical and inefficient manner the work of each other.

There is no reason to suppose that conditions have substantially changed since the date on which the foregoing was written. Among the concrete steps that should be taken by the national government, or, for that matter by all governments, in the way of equipping themselves with the instruments through which to carry on their operations in an efficient manner, is that of the preparation and thereafter of the current revision of organization outlines of this character. In undertaking this work the central bureau of general administration might well take the initiative and exercise

such supervision over the work as is necessary in order to secure uniformity of practice and adherence to general regulations.

It is evident that if outlines such as are here recommended are to be prepared for all of the services of a government of the size and complexity of the United States and if these outlines are to be knit together in such a way as to show the organization, not merely of particular stations, subdivisions of services, and services, but of the government as a whole, some systematic scheme of presenting the data furnished by them must be worked out. To meet this need the writer, in the report quoted from, recommended the preparation of general and supporting outlines and the use of the loose-leaf system. In support of this suggestion he wrote as follows:

Attention has been called to the fact that the main purpose of this compilation is to furnish information that can be currently used by administrators, in the same way as they currently use data developed by a proper accounting and reporting system, as one of their tools of administration. If the outlines are to serve this purpose, it is imperative they should be prepared in such a way that they can be kept constantly revised to date. The end is secured by adopting the device of the loose leaf in presenting the data. Instead of attempting to set out the outline of the government of the United States as one continuous statement the principle is adopted of giving on one sheet only the main subdivisions of the organization unit to which the sheet refers, and of presenting the detailed outlines of organization of these subdivisions on supporting sheets. If a change in organization takes place, all that needs to be done is the rewriting of the particular sheet or sheets affected and the substitution of the new sheet or sheets for the old.

The economy that can be realized is but a small part of the advantages resulting from the use of this loose-leaf system. In the first place, it brings out, in a way that a continuous statement fails to do, the co-ordinate units of organization. Thus, for example, if one desires to determine what are the primary units—that is, the bureaus and services—covered by the Department of Commerce and Labour, it would be necessary for him, in case the outline of organization of that department is shown as a continuous statement, to run over a large number of pages in order to pick out those bureaus and services that are of co-ordinate rank as indicated by the indentation and identification code numbers. The same operation would have to be followed by him if he desired to determine the primary units into which one of the bureaus is divided. Under the loose-leaf system these co-

ordinate units appear one below the other on the same sheet, the subdivisions of each being carried on supporting sheets which are referred to by page numbers.

This system, if rigidly adhered to, would require a separate sheet in each case where a subdivision of a unit is set up. This would require hundreds, if not thousands, of sheets in order to show the organization of a single department. It is not necessary, however, to carry this loose-leaf system to such an extreme. In many cases the organization in detail of a unit of organization can be given as a continuous statement, since the number of subordinate units shown is not so great as to prevent the eye from readily detecting the co-ordinate subdivisions. In preparing this report, the commission has consequently exercised its discretion in determining to what extent details should be carried on supporting sheets. The individual department and services are not bound by the decision of the commission in this respect. In maintaining their own outlines they should depart from the decision of the commission in so far as in their opinion seems wise.

Another advantage of the loose-leaf system is that it makes it possible for the several services to take up the outline where it now leaves off and secure further details of organization, these additional details being entered upon supporting sheets inserted in their proper places. Finally, the use of loose leaves makes it possible, if it is desired to do so, to split up the outlines into parts and give to each service only those sheets which affect its organization.

One thing further should be said regarding these outlines of organization sheets. Each sheet should show for the unit of organization to which it relates not only its subordinate divisions, but also its place in the higher organization of which it is a part. The following sample sheet, taken from the report of 1911, will illustrate this point, and certain other features of the suggested system:

Department of Agriculture  
5. Forest Service  
3. National Forest Districts

Reference to  
supporting  
sheet  
page

*National Forest District 5: San Francisco Calif.*

1. Office proper of district forester.....
2. Office of operation.....
  1. Office proper of assistant district forester in charge.....
  2. Section of maintenance.....
  3. Drafting and blue print room.....
3. Office of silviculture.....

1. Office proper of assistant director forester in charge.....
2. Section of timber sales.....
3. Section of planting.....
4. Section of silvics.....
4. Office of lands.....
5. Office of grazing.....
6. Office of products.....
7. National forests.....
8. District committee.....

This sheet, it will be noted, contains two parts. In the lower is given the organization of the unit known as "National Forest District 5, San Francisco, Calif." In the block above is shown the fact that this unit is one of the subordinate units of the more comprehensive unit designated "National Forest Districts," which is a subdivision of the "Forest Service," which in turn is one of the major organization units of the Department of Agriculture. The numbering of each organization unit is desirable in order that it may be referred to by number instead of by its full title in official communications and accounting documents. The column to the right indicates where the organization of each unit shown on the sheet may be found. Thus, the figures "193" indicate that on the page bearing that number will be found the list of all national forests over which National Forest District No. 5 exercises jurisdiction.

The second device indicated for showing organization is that of charts. To the writer charts show little or nothing that is not equally well or better shown by outlines. Many persons, however, are apparently able to visualize or grasp the organization of a service when shown in the form of a chart. For this reason their use, in certain cases at least, is warranted. The objections to the chart method of depicting organization are: the expense involved in preparing the charts, the difficulty or impossibility of readily revising them, and the fact the limits of their usefulness are soon reached. To serve its purpose a chart must be comparatively simple. If it seeks to present details, it becomes so involved that it is difficult to follow it and its purpose is accordingly defeated. In one particular only can a chart be made to convey information that cannot be shown by an outline. By the use of dotted lines, interrelations between units of organization other than the relation of direct administrative authority can be indicated on a chart. Where it is desirable to show such relations, profitable use can, therefore, be made of this advice. Advantageous use can also be made, for display purposes, of charts showing general organization.

Maps constitute the third means of showing organization conditions. This device is of great value where, as in the case of the national government, the bulk of the operations of the government



is carried on in the field. Through them, each service can secure a general view of its field establishment obtainable in no other way. The use of maps, moreover, presents the advantage that field stations of different services can be shown in relation to each other; something which cannot possibly be done by outlines or charts. Thus, in addition to preparing maps showing the field stations for each service individually, consolidated maps can be made for two or more related services, or for all the services, under the same department, or for all the services of the government. In these consolidated maps the different services can be distinguished from each other by the use of different symbols to indicate the stations of the different services.

With this graphic depiction of field conditions before them the heads of services, departments or the bureaus of general administration are in a position to make a critical examination of the extent to which the services individually or collectively are organized in the most effective manner for the performance of their work in the field. In the national government there is great need that a special, detailed examination should be made regarding the necessity or advisability of maintaining each station now being maintained by the various services in the field. It is a matter of certainty that such an investigation will reveal many cases where stations can either be discontinued, consolidated with other stations, or relocated at more advantageous points. That such is the case, is inevitable in view of the circumstances under which the different stations were established. In some cases they were established to meet a real need existing at the time of their creation, which need, however, may have since passed away an account of changes in the service, the opening up of new means of communication, the development of new centres of population and industry, etc. In other cases stations were established by direction of Congress without adequate inquiry regarding the necessity for such stations, and in still others they were established in response to solicitations or representations made to the services by local authorities, or other persons. Not only will examination show cases in which changes may, with advantage, be made, but it will also show many cases where certain classes of work are being performed by those stations which could be better performed at other stations or at Washington.

This information also will be of the greatest value in considering the very important question of the extent to which co-operation may be secured between different services of the same or different departments. The maps will show just what stations are being maintained at different points throughout the country. They will bring out the facts that at many places, the national government is maintaining a large number of independent stations or offices. This will suggest the question as to whether some plan could not be

worked out by which these different stations, instead of being operated independently of each other, could not be operated more or less on a co-operative or common basis, at least as regards certain features of their work. Thus, for example, it may well be that an economy could be realized by having provision made at one time for the proper housing or accommodation of these various services instead of having each service make its own independent arrangements as regards quarters. Such common action would probably lead to economy in many cases and to increased efficiency resulting from their being brought under a common roof. There are, moreover, many cases in which it is necessary for a service to have a representative at a given point but where the duties to be performed by such representatives are comparatively simple, requiring the expenditure of but little time or effort. Examination might show that in such cases the need of the service will be met by having these duties entrusted to some other federal official stationed at those points, thus saving the expense involved in maintaining an independent service.

In like manner, the information furnished by maps regarding the location of field stations will lay the basis for a careful consideration of the problem of the most effective and economical administration of the work of field inspection. At the present time independent inspection work is being done by the several services. It may happen that a number of inspectors, representing different bureaus in the same department, may leave Washington at the same time for the purpose of inspecting stations in the same city. It is quite possible that the fuller knowledge regarding field conditions furnished by maps in connection with outlines showing the organization of field stations will permit of closer co-operation between services with respect to inspection work and the reduction of the present great expense for travel.

The foregoing indicates only the more obvious uses to which outlines, charts, and maps of organization may be put in the actual work of the conduct of affairs. There remain, however, many other ways in which the information furnished by them can be utilized. For example, a classification of organization units according to character would bring out for each service, each department, and the government as a whole, just how many units of a given character, such as libraries, chemical laboratories, carpenter shops, etc. exist at Washington and the services to which they are attached. This would immediately raise the question whether the maintenance of so many different units for doing the same work was economical and the extent to which the establishment of central units ministering to the needs of all services at Washington might not be desirable.

**Work Assignments and Progress Reports.** The more one studies the problem of public administration the more he must become impressed with the importance of the factor of overhead supervision and control. In no small degree the success with which an undertaking is conducted is dependent upon the extent to which it is efficiently directed. This in turn is dependent upon the extent to which those in authority are furnished with full and current information regarding the character and needs of the services under their direction. It is for this reason that so much emphasis has been placed on the necessity for the tools of administration, the adoption of a system of accounts and reports that will currently show financial condition and operations, the maintenance of proper personnel records, etc.

Valuable as all of these devices are, none of them furnish currently information regarding activities in terms of work done. Whenever possible, it is desirable, therefore, that each service shall provide means by which a methodical record and report shall be made of work under way and accomplished. The nature of this record and system will necessarily vary among the several services of a government according to the character of their activities. In the national government a not inconsiderable number of services are engaged upon work of a research character. Following is a system through which work of this character may be effectively controlled.

Upon the decision being reached to enter upon any study or piece of research work, a letter of instructions, setting forth in such detail as circumstances require the nature of the work to be done, the methods to be employed, etc., is prepared on a form provided for that purpose. This form also gives the assignment number of the task to be used by the persons working upon the assignment in keeping and reporting the time devoted by them to it and by the bookkeeper in recording the expense entailed by each job of work undertaken. One copy of this "work assignment," as it is called, goes to the person to whom the assignment is made, one to the bookkeeper, and one is retained by the director. The regulations then require that, at the end of each calendar month, each staff member shall make a separate progress report for each assignment that has been given to him. In this report the staff member is required to state not only the progress made on the assignment and the probable time required for its completion, but any circumstances, in the way of difficulties encountered or otherwise, that might lead to a change of plan. The staff member retains a copy of this report, which he places back of his work assignment to which it relates. The original, which goes to the Director, is similarly handled.

It is evident that through these work-assignments and progress reports the Director has a complete record of all work undertaken and is in a position where at least monthly he can pass in review current operations for the purpose of assuring himself that inquiries are being prosecuted with due diligence, and that the work being done is of the character contemplated and of making such changes in his work program as the information so obtained would dictate. Through his accounting system he also secures monthly the expenditures entailed by each job under way.

Before leaving this subject it should furthermore, be noted that the operation of a system such as this results in an important collateral benefit. This consists in the moral effect that it has upon the working personnel. Nothing stimulates more the energies of an employee than the knowledge that his superior is keeping close track of his work, and that the extent to which he does good or bad work will be noticed. The influence exerted by a work assignment and progress report system is of itself of sufficient importance to justify the comparatively slight trouble involved in its operation.

**Administrative Reports.** In the preceding sections we have had under consideration certain devices primarily intended as instruments through which those in direct charge of administrative work may more effectively exercise their function of direction, supervision, and control. Responsibility, however, does not cease at this point. It is equally important that provision be made by which these latter officers may turn be held to accountability for the manner in which they perform their duties. Of the means by which this may be secured, three most important are: the requirement that all administrative officers shall keep an accurate account of their financial transactions; the audit of these accounts by an independent agency; and the requirements that such officers shall periodically make a full report on the work of their services during the periods since the rendition of their preceding reports. The first two of these means of securing accountability are fully discussed elsewhere. There remains, therefore, only the third for consideration here.

It might seem at first sight difficult to justify the devotion of space to a consideration of a device the general function of which is so well known as that of the administrative reports. In point of fact, it can, it is believed, be shown that not only have the possibilities of this device as a tool of administration been very inadequately appreciated, but that hardly an approach has been made towards the perfection of its technical character. This can best be shown by setting forth the character that such documents should have, and by pointing out wherein the present system of reports of most, if not all, of our governments fail to meet such requirements.

Manifestly, if an administrative report is to perform its function of serving as a means through which a superior authority may gain a knowledge of the manner in which duties and responsibilities entrusted to a subordinate have been performed, the former should determine the character that such document should have; that is, he should fix the nature and the manner of presentation of the data that it should contain. Furthermore, when reports are required from a large number of officers, as is the case in governments, and particularly in that of the national government, it is highly desirable that the contents and form of presentation of these reports should, as far as practicable, be standardized, by the end that the operations of different services may be compared one with another.

Nothing like this is attempted in the case of the national government, or, so far as the writer has knowledge, by any other government. Instead of the authority to whom the report is made determining the character of information that shall be given by it, the decision is made by the reporting officer. This means not only that each reporting officer gives only such information as from his standpoint seems desirable, but also that nothing approaching uniformity of contents or treatments is to be found in the reports as rendered. Some reports are of a mere summary or perfunctory character, while others enter into a wholly unnecessary detail. Some give one class of information and some another. The situation, in a word, is that the national government and most governments generally have wholly failed to recognize the function of the administrative report as one of the essential tools of administration.

This situation can only be corrected by a complete reversal of the present system as regards responsibility for determining the character and contents of administrative reports. Either the legislative body, or the chief executive, acting through his bureau of the budget or bureaus of general administration, should make a careful study of exactly the character of information that is required by it for control purposes and, by statute or executive order, require administrative officers to furnish such data in their annual administrative reports. Though this information will, of course, vary in details as between the different services, it should have the same character as regards the main subjects covered and the manner of its presentation. It should, for example, be obligatory upon the head of each administrative service to include in his annual report: a statement of all appropriations or other funds available for expenditures during the year and of all expenditures during the year so classified and tabulated as to show clearly the nature of such expenditures and the purposes for which they were made; a statement of the manner in which the service is organized for the performance of its work; operating statistics showing the character and

amount of work performed during the year; reference to, and when feasible, a reproduction of, all legislation during the year affecting its organization, procedure, or work, and finally, in concrete form, such recommendations as the head may desire to make regarding the organization, procedure, or work of the service to which the report relates. In addition to making these requirements, in general terms, the regulations should, as far as is practicable, prescribe the form in which these data should be given, to the end that comparisons may be made between conditions and operations in the different services.

Were this policy adopted it can be seen how much more valuable these reports would become both for general control purposes and as supporting documents to the budget. As regards the latter point, it may almost be said that no satisfactory budget system can be had without the perfection of a system of administrative reports as here recommended. In a budget it is practicable to give little more than a bare listing of the figures showing financial condition, operations, and needs. Little or nothing can be done in the way of explaining these items, showing the results accomplished as the result of expenditures in the past or in progress, or of justifying the demands that are made for the grant of funds for future operations. Yet it is precisely this character of information that is needed by the legislature if it is to give intelligent consideration to the budgetary data laid before it. At the present time Congress seeks to get this information by the holding of extensive hearings at which the heads of the several services appear and give testimony in respect to their work and the reasons actuating their requests for further appropriations. It is not contended that the necessity for such hearings will be entirely eliminated were administrative reports prepared in proper form. It is certain, however, that were such reports available, these hearings could be greatly shortened, since most of the data elicited by question and answer would appear in these reports. The curtailment of these hearings would result in a great economy of time and expense and tend to facilitate greatly the handling of the budget both by the committees on appropriations and by the two houses in considering the appropriation bills reported to them for action.

Another feature that should receive careful consideration in devising a proper system of administrative reports is that determining the relations that should exist between the reports of different grades of administrative officers. A complete scheme of administrative reports includes: first, reports of subordinate officers having charge of distinct subdivisions or branches of work of a service, reports of the heads of services; reports of heads of departments; and the report of the chief executive or head of the administration. It is desirable that these several grades of reports

should be knit together into a consistent whole. This can be done by making each class of reports supporting documents to the one of next higher grade. At the top should come the report of the chief executive or administrator in chief. It would give the grand summaries and comments and recommendations that are of general importance, referring for details to the reports of the heads of departments which, in theory at least, should accompany the chief executive's report as supporting documents. In like manner the reports of the heads of departments should give only the facts of more general importance regarding the organization and work of the departments, leaving the consideration of details to the reports of the service heads which accompany them as supporting documents. It is questionable whether the published reports should go beyond those of the service heads. Any reports of more subordinate officers should, however, be kept on file in the services concerned so that they can be consulted if occasion therefor should arise. This feature of an administrative reporting system is specially mentioned since it is desirable in the interests of economy, to prevent the duplication of matter contained in one report and in the interests of clearness, that reports intended for general information should not be unnecessarily burdened with details.

One point further that has received only incidental mention should be stated before leaving this subject of administrative reports. This is that the chief executive should in all cases be required to make an annual administrative report. At the present time no such report is made by the President of the United States, and the reports made by the governors of the states and to a considerable extent by the mayors of our municipalities are either of a perfunctory nature or primarily of a political rather than administrative character. This report might well be made the subject of the annual address of the chief executive to the legislature upon its convening in regular session, leaving to special messages matters of general political interest that he may desire to bring to the attention of that body.

**Official Gazette.** The whole theory of modern constitutional government rests upon the principle that all offices of the government, from the lowest to the highest, are in final analysis responsible to the electorate by whom they are directly or indirectly put into office. If this principle is to be more than a theory, it is evident that means must be provided by which the electorate may be kept currently informed of what the government is doing. From still another standpoint, information of this character should be generally available. Government operations are now on such a scale and cover so wide a field that there are few business interests that are not

affected by what the government is doing or proposes to do. This is true not merely of legislation affecting the conduct of particular business but also of the large amount of work done by the administrative services having for its purpose to promote the agricultural, industrial, commercial, and social interests of the community. One of the most difficult problems that confronts these services is that of ensuring that the results of their efforts reach the interests that they are intended to serve. As a business undertaking the government is compelled to make large purchases of supplies and materials and to enter into construction and other contracts on a large scale. It is both to its interest and to that of prospective sellers and contractors that certain means shall be provided by which the widest possible publicity shall be given to such government needs. Finally, from the standpoint of general education it is desirable that all phases of a government's work shall be known by the citizens on whose behalf it is performed.

If one studies this phase of the problem of such a government as that of the United States, existing conditions must be pronounced very unsatisfactory. Broadly speaking, there exists no means by which the public may be informed regarding the work of the government. In the field of legislation it is true that in the Congressional Record, which is published daily while Congress is in session, a full report is made of the proceedings of Congress while sitting in open session. This publication, however, does not begin to furnish the information that should be available regarding the work of Congress. It gives little or no data, for example, regarding the work of committees and commissions, the hearings on important measures, etc. It does not reproduce the bills that have been introduced, and only in exceptional cases the bills actually taken up for consideration. Nor does it reproduce the reports of committees, or, for that matter copies of acts actually passed. The result is that, through this publication, the public can secure little information regarding proposed hearings on pending measures, the character of bills introduced or considered, or even of laws enacted. Only a very limited few even know copies of these documents may be secured. Due to this situation of affairs, many interests are compelled to employ special agents to follow the proceedings of Congress and keep them informed regarding matters affecting their interests, while bodies, such as the Chamber of Commerce of the United States, are under the necessity of preparing and distributing to their membership special bulletins having for their purpose to make known what Congress is doing or proposes to do in the field in which their interests lie.

When one turns from the legislative to the administrative branch conditions are even worse. Not the first attempt is made to inform the public in any comprehensive way of what the several scores of



administrative services are doing. Each service, to be sure, issues its annual report, and many of them, special lists of their publications. The Superintendent of Public Documents also issues a monthly list of publications of the national government and from time to time special lists of publications available on particular topics. All of these serve a valuable purpose, but they give but a slight idea regarding governmental activities and, at best, reach but a small number of persons. The President is constantly issuing executive orders and proclamations, many of which are of general importance. The several departments and bureaus are also issuing supplements to or revisions of administrative orders and regulations having an importance in many cases scarcely less than statutes. Absolutely no methodical means are provided for giving general publicity to this important body of administrative law. In an inadequate way persons resident in Washington are able to follow the operations of the national government. As soon as one leaves that city, it becomes almost a hopeless task to attempt to do so.

The trouble with all of the publications of the government, purporting to give information regarding the acts or publications of the administrative departments and services is that they are special in character, each concerning itself with the operations of a single service, and that they go to but a small number of selected readers. There are thousands of cases, where the work of the government would be not only of interest but of direct advantage to persons and firms, were the latter but aware that such work had been done. The only manner in which this general publicity regarding the operations of government can be secured is through the publication of an "Official Gazette," which will have this sole purpose in view. This publication should appear at least as often as weekly and probably should be a daily. It need hardly be said that it should be compiled and edited with great care. Especially should the effort be made, through the classification of the data and the use of appropriate captions, to present the material so that its content may be readily determined. This can be done by providing for separate departments for each class of information—one for congressional proceedings, one for executive orders and proclamations, one for administrative rules and regulations, one for financial statements, one for advertisements for bids, etc., In some cases documents should be reproduced in full. This treatment, for example, should be accorded to the President's messages to Congress, laws enacted, and executive orders and proclamations. In the case of the annual budget the general budget statements should be given *in extenso*. In other cases it will be sufficient to give a more or less brief notice of the issue of the regulation or report, with an indication where and under what conditions the full document can be obtained. Many of the research services of the government,

upon the publication by them of reports giving the results of their investigations, issue to the press short notices describing their general character. Such notices might well be reproduced in the Gazette and be required in the case of all reports intended for the benefit of the people. As regards the general work of the administrative services, brief summaries should be given of their annual reports, and in addition special notices from time to time of the more important features of their work inaugurated, under way, or completed. After all, however, the main purpose of the publication should be that of furnishing a general key to the operations and publications of the government so that persons can at least have knowledge of what is being done and issued and where to address themselves in case they desire more detailed information.

That such a publication would be of great value to the community, would seem to be beyond question. Its value as a direct tool of administration would be scarcely less, since, through it all parts of the governmental organization could keep in touch with what was being done by other parts, a condition that would greatly tend to lessen duplication of work and to enable one service to avail itself of the results of the work of others.



**PART II**  
**PERSONNEL**



## CHAPTER XIV

### SOME FUNDAMENTAL CONSIDERATIONS

Of the four groups into which, for purposes of study, the problem of public administration has been divided, that dealing with problems of personnel is at once one of the most important, most complex, in the sense of presenting a multitude of phases or considerations, and most needing careful analysis and study. No amount of care in determining how a government shall be organized for the performance of its work, the particular practices and procedure that shall be employed by it, and the manner in which the funds necessary for its support shall be raised and expended, will give even a measurable approach to thorough efficiency in the actual administration of public affairs unless a technically competent personnel can be secured and retained in the service, and a system devised whereby this personnel may be effectively directed and controlled.

**Special Character of the Problem of Personnel.** Problems of personnel differ from other problems of administration in that they have to do with the personal element. It is this that gives to them their peculiar character and makes their solution difficult. Other problems of administration may be studied wholly, or almost wholly, from the standpoint of the management and the employer. Problems of personnel have to be studied from other standpoints as well. Especially is this true in a government of a popular or democratic type. Broadly speaking, the personnel system in such a government—that is, the system under which personnel is recruited, the legal status as regards tenure of employees, their compensation, opportunities for advancement, working conditions, etc.—is one in which three parties have a direct interest—the general public, the government viewed as an employer, and the employee. The general public is concerned in the sense that it is to its direct interest that the system shall be one offering an equal opportunity to all citizens to enter the government service and to receive advancement in the service in accordance with merit displayed in the performance of official duties. The spoils system, under which entrance to the public service and subsequent advancement depends upon favour, in addition to its many other bad features, is basically wrong in that it does violence in this fundamental consideration. It is a system

which violates in a flagrant manner the essential principles of democracy.

The government as an employer, is interested in securing an efficient personnel and in getting the maximum of work from such personnel for a minimum expenditure. The employee is interested in securing the maximum compensation, proper work conditions, security of tenure, and opportunities for advancement. These several interests may at certain points seem to be in conflict with each other. It will be part of our task to show, however, that a properly organised and administered system can bring them into substantial harmony, provided that regard is had to general consequences rather than the seeming exigencies of particular cases. This desirable end, however, can be attained only if great care is taken to determine and put in effect the fundamental principles upon which a proper personnel system should rest.

In this introductory chapter the attempt will not be made to examine any of the problems of personnel in detail: All that will be sought will be to make known the nature of the problem and the elements into which it may be resolved. Essentially it will be a work of analysis. Its purpose is merely to lay the foundation for the more detailed consideration of the specific problems of personnel given in the succeeding chapters. Only when the nature of a problem is known, can that intelligent consideration be given to its solution.

In attempting such an analysis the effort will be made to place ourselves in the position of a government, such as that of the United States, which is applying itself for the first time to the concrete problem of working out an efficient personnel system, or of thoroughly revising its existing system with a view to securing such a system.

**Types of Personnel Systems.** Approaching the problem from this standpoint, it is evident that the first point that such a government has to determine is the general character of the system that it desires to establish, or to state it in another way, the basic principles upon which it shall rest. An examination of the personnel systems of the leading governments of the world shows that they are radically different in character according to the principles upon which they are based.

**The Bureaucratic Type.** At one end of the scale stands the purely bureaucratic type of Prussia as it was before the late war. Much misapprehension exists in regard to the true character of this system due to the two senses in which the term "bureaucratic" may be employed. In its larger sense, this term

is used to describe any personnel system where the employees are classified in a system of administration composed of a hierarchy of sections, divisions, bureaus, departments, and the like. Used in this sense there can be nothing to justify the prejudices which exist in the United States against what is known as a bureaucracy. Such a system is, in fact, the one that must be established in the case of any large undertaking if efficiency in operation is to be secured.

The term bureaucracy, however, can be, and is, used in a much more restricted and special sense as descriptive of a body of public servants organized in a hierarchical system which stands outside the sphere of effective public control. It is in this sense that it is employed in designating the late Prussian civil service system. The prime characteristic of this system was that it represented a body of public servants owing their positions directly to the authority of the king. They were in the fullest possible acceptance of the term but the servants of the king, the agents through whom he exercised his autocratic powers as head of the administration. Due to this fact the king was able to organize the civil branch of the government upon a basis substantially similar to the military branch of the government. It constituted as distinct a career as those of the military and naval establishments. Special provisions existed for the education and training of those contemplating adopting its several branches as careers. After entrance, its members advanced in a regular gradation of positions and in conformity with general regulations. Their tenure of office was as fixed and secure as in the case of the military and naval services. Practically the same care was given to the determination of the titles employed in designating officers of different grades and to the social and other advantages and prerogatives attaching to such offices as in those services. The result of these provisions was to bring into existence a body of public servants that constituted a distinct class in the community in the same way as did the military and naval forces. This condition, it should be stated, obtained not only in respect to the national government, but also to a scarcely less degree in the case of the municipal and other local governments of the kingdom. Even the office of burgomaster or chief executive of cities was a profession, and persons holding this office passed freely from one city to another.

There can be no question of the advantages which such a system offers purely from the standpoint of efficiency. Under it conduct need be dictated only by considerations of administrative efficiency. There is every incentive to secure efficient employees and to enforce efficiency in the performance of duties. The writer of the present work has had practical experience with such a system while serving as Treasurer and later as Secretary of State of Porto Rico. From the standpoint of that island the insular government may be deemed



to have been an autocratic one. The Governor and the heads of all the executive departments owed their appointments to the President of the United States and held office at his pleasure. The result was that they were in a position where they could administer the affairs of their offices free from all political and personal pressure on the part of the inhabitants of the island. Due to this, and not to any special capacity on the part of such officers, the administration of civil affairs in that island was the most efficient of any with which the writer has ever come in contact.

We have mentioned this point with special care, since there exists such a widespread misconception in respect to the secret of undoubted efficiency of the Prussian civil service administration. Commonly it is ascribed to the peculiar efficiency and capacity for organization of the German. In point of fact, it is doubtful whether the individual German has an ability or a capacity for organization equal or superior to that of the American. The real explanation of the efficiency of the German system is to be found in the characteristic which we have mentioned; namely, the autocratic basis upon which it rests in respect to the status and powers of the personnel and its independence of outside pressure and control.

Notwithstanding the advantages of this system, examination will show that there are inherent in it certain disadvantages or dangers which go far toward justifying the deep-seated distrust that Americans have of it. The fact that, under it, government employees were servants of the crown rather than of the people tended to make them not only irresponsible to public demands, but to assume a superior overbearing attitude towards the public. That this feature was very much in evidence in the Prussian system, only one who has had contact with it can testify. All of the evils of militarism, as they concern the relations between the military establishment and the general population, are latent in, if not positively expressed in, the case of a bureaucracy such as we have been describing. What is of far greater importance, however, is the power which this system gives to a ruler to control both the general social and political life of the people. In Prussia this power was exercised by the king in a most ruthless manner to control elections and to secure the attainment of his political aims. In a very direct way the system was used as an instrument to restrict the liberties of the people.

With a true understanding of the nature of a bureaucracy it must be apparent that the dangers which the American people apprehend as residing in this type of organization are, under American conditions, wholly non-existent. A bureaucracy of the Prussian type can only exist in a government resting upon the principle of autocracy. In America all political powers are derived from the

people and final authority over all political agents is in their hands. The objections to a bureaucracy which we have named, in a word, are due not to the existence of a permanent civil service highly organized in a hierarchical system but to the location of the supreme power over this system. There is thus no reason why the American people, if they are so minded, may not secure a civil service possessing most, if not all, of the advantages of the Prussian bureaucracy with none of its dangers and disadvantages. We may go further than this and say that until we are prepared to bring into existence a bureaucracy in the sense of a well-organized hierarchy of permanent position, it will be impossible to secure a thoroughly efficient personnel system.

**The Aristocratic Type.** In England we have another type, which may be characterized as the aristocratic in contrast with the autocratic type of Prussia. A distinguished feature of this system in the past has been the sharp distinction which was drawn between different grades of personnel and the difficulty which existed in passing from one grade to another. There was, first, the class of permanent under-secretaries and assistant secretaries. No attempt was made to apply the competitive principle in recruiting this class. Its members held office by appointment, based upon the personal judgment of the appointing officers as to their capacities, and selections could be made from persons already in the government service or who had never held public office. The theory was that the qualifications desired of this class are of so special a character, involving to so large an extent the matter of personal equation, and the relation between them and their appointing officers was of so personal a nature, that the latter should have broad discretionary powers in making their selections. Next, there was the class of superior administrative officers to whom was given the designation of first-class clerks. This class included all those who, subject to the authority of their superior officers, the heads of the departments, the under-secretaries, and the assistant secretaries, occupied the more important positions and constituted the great bulk of what may be called the directing personnel. This class was almost wholly recruited by means of special competitive examination, the conditions and character of which were so fixed that practically only graduates of the universities of Oxford and Cambridge could hope to compete with success. Only in exceptional cases were these positions filled by promotion of employees in the lower ranks. Finally, there were sundry classes of subordinate personnel, the ranks of which were recruited by special competitive examinations, and in less degree by promotion of persons within the services.

This system was based upon substantially the same principles and considerations that obtain in the military and naval services.

Substantially the same clear distinction was made between the directing personnel, or officer class, and the general line of employees that was made in the latter services between commissioned officers and enlisted men. And the same difficulty existed in passing from one class to another that obtains in those services. The theory was, though it was not always openly avowed, that the directing personnel should not only have qualifications which can only be secured by special training such as is given in higher universities, but that they should also be drawn from the upper classes of the population. This system, which is often described as one of water-tight compartments, was, it will be observed, one congenial to the aristocratic character of the social system of England. Primarily its adoption was due to this fact rather than to the deliberate opinion on the part of those entrusted with the conduct of public affairs of its intrinsic merit. The arguments that were brought forward in favour of it represent, thus, but the effort to justify a decision that has been made upon other grounds.<sup>1</sup>

Though this system still obtains to a considerable extent, important changes in it have been made by recent legislation, which was intended to break the partial monopoly of Oxford and Cambridge in the supply of men for the superior positions. The World War contributed not a little in making this legislation possible.

**The Democratic Type.** The system of the United States presents still a third type of civil service organization. In characterizing the American civil service as a distinct type, reference is not made to one of its most characteristic features, the extent to which public offices are treated as political spoils, but rather to the character that has been given to the system where the effort has been made to take it outside of the domain of politics and put it upon a merit basis. A distinguishing feature of both the German and English systems is that they are based upon the principle of recruiting their personnel from among young people just leaving school, who have deliberately selected the government service as their life occupation. Thus, in the English system candidates for first-class clerkships must be between the ages of 22 and 24 years, those for second-division clerkships from 17 to 20 years, and those for the position of boy clerks from 15 to 17 years. It results from this that the whole system of entrance examinations is framed on the basis of determining merely the general qualifications of candidates. The theory is that they will receive their technical training for the performance of particular tasks after they are in the service. All these

<sup>1</sup>For an interesting criticism of the extent to which in England control over entrance into all the higher political positions is in the hands of a relatively small number of families of the upper class, see, Hilaire Belloc and Cecil Chesterton, *The Party System*, London, 1913.

features, it will be observed, are consonant with the principle of making the public service a permanent career for its personnel.

In the United States the whole principle upon which the personnel system is based is radically different. The theory seems to be that the government service is not one to be deliberately adopted by young persons as their life vocation. The age requirements are such that persons well along in life may enter, and, in fact, to a large extent, persons entering the government service have previously been employed in other capacities. Entrance examinations, instead of being of a general character, are highly specialized. The effort is made to secure persons already possessing the particular technical training fitting them to perform the work called for by the particular positions to be filled. In this system the feature of water-tight compartments does not obtain. There is nothing to prevent employees starting at the bottom of the scale and progressing to the top of the service. Nor are the examinations for entrance of a character that their requirements can only be met by students or graduates of particular institutions. The system may, thus, be designated as a democratic one in contrast with the autocratic and oligarchic systems of Prussia and Great Britain.<sup>2</sup>

**Relative Merits of the Three Types.** As regards the relative merits of these three systems it has already been pointed out that from a purely technical efficiency standpoint, the autocratic system has much to commend it, but that it presents features from a general political standpoint which are so objectionable as to more than counterbalance its advantages. As between the British aristocratic and the American democratic systems it is believed that the latter, if account be taken of both general, political, and technical efficiency considerations, is the one to be preferred. It may be true that there is a certain advantage in the assurance under the British system that all positions of superior importance will be held by men of a broad liberal education, who have adopted the public service as a permanent career. Apart from the fact that this system reserves all such positions to a special class, it has, however, the radical defect that, by closing the door to advancement to employees in the lower ranks, it removes or lessens one of the greatest incentives to efficient work. The federal service abounds in examples of men entering the service at the bottom and rising to the higher administrative posts. That this condition is one that exerts a powerful influence improving the civil service, no one familiar with conditions at Washington can for a moment doubt. After all, this question is largely an academic one, since the United

<sup>2</sup>The foregoing description of types of personnel systems has been largely taken from the author's work, *An Introduction to the Study of the Government of Modern States*, The Century Company, New York, 1919.

States will never accept a personnel system that does not rest upon a firm democratic foundation.

**Tenure of Office.** One of the most important features of any personnel system is that of the tenure by which officers and employees shall hold office. As regards this feature, three forms of tenure may be distinguished: (1) At the will of the appointing officer, (2) term of years, and (3) during good behaviour or for life. The question as to which of these tenures shall be employed, varies with the different classes of personnel going to make up the government service.

Where offices are of a political character, such as those of members of Congress or other legislative bodies, the chief executive and the heads of the administrative departments constituting the latter's political cabinet and where they are consequently filled by the process of popular election, the term of years tenure is properly and almost universally employed. The only questions presented as regards this class of officers are in respect of the length of term and eligibility for reelection. The general principle that would seem to apply in respect of these points is that the term of office should be of sufficient length to enable an officer to demonstrate his abilities and to put into execution his election pledges and yet not so long as to prevent the voters from passing judgment upon his work at reasonable intervals of time. If provision is made for the device known as the "recall," it is feasible to make the term of office longer than would otherwise be desirable.

Judges of courts offer another special class of employees. In the case of the political officers just examined, the prime factor in determining tenure has been the necessity of making provision by which they may be controlled by electorate to whose votes they are indebted for their offices. In the case of judges the contrary consideration may be said to obtain. Here it is desirable that the officers shall be as free as possible from all outside control, or even influence, to the end that their acts may be dictated solely by the intrinsic merits of the matters coming before them for adjudication. This independence can best be secured by making the tenure one during good behaviour or for life.

Though our study does not primarily concern itself with the political and judicial branches of the government, mention has been made of the question of tenure as it concerns those two classes of personnel in order that our consideration of the subject might be complete and because they serve to illustrate the nature of the tenure problem. Turning now to administrative personnel proper, it is desirable at once to state that of the three forms of tenure that have been enumerated, practically every consideration warrants the statement that tenure during good behaviour or for life is the one that should, in all but relatively few special cases be the one employed.

The most noteworthy fact in regard to tenure of office at the will of the appointing officer is that this is the tenure which is almost universally found in private undertakings. The question is thus presented why the same should not be true in respect of government services. In the first place account is to be taken of the fact that the conditions under which private undertakings are carried on differ radically from those obtaining in the case of government undertakings in that, in the former, the owners or managers do not hold office as the representatives of any outside interest; they are thus subject only in relatively slight degree to outside pressure in respect to the selection or retention of their employees; their whole interest is in having the work under their direction prosecuted with the utmost economy and efficiency; and effective means exist in the financial results realized for measuring the extent to which such economy and efficiency are in fact secured. Managers of private enterprises are therefore under the strongest sort of incentive to retain employees in their service so long as they perform their duties faithfully and efficiently. There does not exist in their case, therefore, the necessity for the erection of special safeguards against the arbitrary exercise of the power of dismissal on the part of appointing officers.

In the case of government services, managing heads are not directly interested in the financial results secured; they are subject to an outside pressure to make positions through the dismissal of employees that it is often difficult for them to resist, and inadequate means exist both for controlling them in the exercise of their powers and in measuring the efficiency with which the affairs under their direction are conducted. In their case, therefore, it is essential that the possible misuse of their powers in respect to the dismissal of employees shall be subjected to control by the adoption of some one of the other tenures of office.

In the second place it must be recognized that, notwithstanding the facts are as above stated, many cases of unjust treatment of employees occur in private enterprises. Regrettable as they may be, the state is not under the same obligation to prevent them as exists in the case of their own services. In the case of private enterprises the wrongs committed are private wrongs; in the case of the state they are both private and public. Thirdly, it must be recognized that the larger the private undertaking and the more efficient its management, the greater is the tendency to establish a personnel system under which employees enjoy a permanency of tenure so long as they render faithful and efficient service. The Pennsylvania Railroad may be cited as a leading example where such conditions obtain.

It is not necessary to push the consideration of this matter further, since experience has everywhere demonstrated that the

system of tenure at the arbitrary will of the appointing officer has given bad results in practice and has led to abuses which have both degraded our political life and demoralized our administrative servvies.

Turning now to a consideration of the system of appointment for definite terms, it will be found that the arguments that can be brought against such a system are even stronger than those against tenure at the arbitrary will of the appointing officer. In fact, it is difficult to discover one valid argument that can be adduced in its favour. Manifestly, such a system precludes any approach to the establishment of conditions where the government service will constitute a career for its officers and employees. It not only establishes a regime which works a hardship on government officials but it also detracts greatly from the stimulus that they should be under to do their best work. From the standpoint of the government it means that the best work will not be gotten from existing officials and that the services in which it prevails will suffer from a constant shifting of personnel. About the time officers and employees have thoroughly learned the duties of their positions and have acquired proficiency in their performance, they will drop out and their places will be taken by new, and untrained employees.

The foregoing facts are so evident that special effort should be made to explain why so many of our governments and especially the national government have in the past adopted this tenure for almost all of their officers and employees and still employ it to a considerable extent. The explanation is to be found in the following facts: first, and most important of all, there has existed a widespread feeling that government work is not of a character requiring special skill or experience. Consciously or unconsciously, the position has been taken that it is of a character that any one of ordinary education and experience can perform with reasonable efficiency. Combined with this has been the feeling that government services tend to develop a dry rot and that it is desirable that, from time to time, new blood should be injected into them; and a general distrust of anything like a permanent bureaucracy. Finally, of course, there has been the unfortunate belief on the part of many that government positions are in the nature of spoils to be enjoyed by the party victorious at the polls, or are in the nature of benefits or prizes which instead of being enjoyed by a few permanently should be given the widest practicable distribution.

The result of this attitude toward the government service led, in the case of the national government, to the establishment by law of the system under which the tenure of office for many classes of positions is fixed at four years. This particular term was selected as corresponding with the term of office of the President,

to the end that a change in officials and employees might be made with each change of administration. The history of the adoption of this practice and its evils are set forth in the Report of President Taft's Commission on Economy and Efficiency on "Methods of Appointment" as follows;<sup>3</sup>

Finally, it is to be noted that a fixed term of four or five years is given by certain acts of Congress to many of the local officers of the government who are appointed by the President by and with the advice and consent of the Senate. Such laws militate greatly against the highest degree of administrative efficiency, for they necessarily bring up at the expiration of a term of office the question of reappointment, and when combined, as they usually are, with confirmation by the Senate they necessarily make it more difficult than it otherwise would be to retain efficient men in the service, since they interject politics into questions of appointment, and in no way add to the disciplinary power of removal which is in any case complete.

The Civil Service Commission says in its report for 1910:

Appointment of all the higher officers in the national civil service outside of Washington, such as postmasters of the first, second, and third classes, collectors of revenue, appraisers, and marshals, are subject to confirmation by the Senate; their appointments are to a greater or less extent determined by political services. They often control party nominations and the choice of delegates to nominating conventions or they themselves so serve. As has been well said, there is to-day no such profession as that of trained postmaster, collector, surveyor, or appraiser.

During the first forty years after the organization of our government administrative practice with regard to the civil service seemed to conform to the intention of the founders. The Constitution fixed the term of no officer in the executive branch of the government except those of the President and the Vice President. . . . It was the established usage during these first forty years to permit executive officers, except members of the Cabinet, to hold office during good behaviour, and this practice was changed by the four-year tenure act of 1820. . . . Shortly after the four-year tenure act had been passed, Jefferson said of it:

<sup>3</sup> *Economy and Efficiency in the Government Service*, Message of the President of the United States Transmitting Reports of the Commission on Economy and Efficiency, 62 Cong., H. doc. 670, 1912, pp. 34-35.



"The late mischievous law, vacating every four years nearly all the executive offices of the government, saps the Constitution and salutary functions of the President and introduces a principle of intrigue and corruption which will soon leaven the mass not only of Senators, but of citizens. . . ."

The civil service act was intended to cure in part the evils traceable to the spoils system which grew out of the four-year tenure of office act. Our administrative system now presents the anomaly of filling certain inferior positions by test of merit and changing every four years the higher positions, certain of which the President urges that he be given power to classify, such as those of collectors of customs, collectors of internal revenue, and postmasters, in which proven capacity and most thorough training are required in the interest of good administration.

These four-year term laws were passed about 1820. Since the passage of these statutes it has, however, seldom been the case that Congress has provided a fixed term of any length for officers in the field services or, indeed, for any of the officers of the government. It is to be regretted that although Congress would seem to have become convinced of the undesirability of four-year terms, as is evidenced by its general abandonment of the four-year term for the offices most recently established, it permits the four-year term to remain for those offices for which it was provided by the legislation of the first quarter of the last century.

So long as the four-year term and appointment by the President by and with the advice and consent of the Senate are retained in combination for these classes of officers it is almost useless to hope that the most important positions in these local services of the government will ever become permanent in character or that they will be filled by really qualified persons. Under present legal conditions they will always remain political in character, their incumbents will be frequently changed, and great loss both in economy and efficiency in administration will result to the government. It is because of the general refusal of Congress to fix the term of the heads of bureaus at Washington that a long step has been taken in building up a permanent force in charge of the routine work of the departments.

The repeal of these four-year term of office acts, in so far as it would make possible greater permanency in tenure and greater length of term of actual incumbency

of office would, in all probability, improve the quality of the service by keeping in office persons better qualified as a result of practical experience to discharge their duties than is at present the case.

It will be seen from this quotation that the four-year term system applies chiefly to the directing personnel and the chief officers of field stations. As regards all subordinate positions at Washington and to a considerable extent in the field, the principle of permanency of tenure, that is, during good behaviour, has been established by what are known as the civil service reform acts. This is good as far as it goes. It is not, however, until the same principle is established for the superior positions that anything approaching an efficient personnel system may be secured.

Before leaving this subject of tenure, it is important to note that there is a distinction between tenure during good behaviour, or as it is sometimes designated, tenure without term, and tenure for life. The latter tenure carries with it the principle that an officer holding under it cannot be removed except for cause and this cause, by which is meant misconduct or some other equally valid reason, must be affirmatively shown by some formal procedure such as impeachment. Tenure without term or during good behaviour means that those holding under it may be removed at any time by the appointing power whenever in his opinion the good of the service requires such action. It differs from the tenure at the arbitrary will of the appointing officer only in that the latter is under the obligation of justifying his action in each specific case and that certain safeguards are erected against his abusing this power. These safeguards may take various forms, ranging from the mere requirements that an employee shall not be removed until he is informed of the reason therefor and given an opportunity to defend himself to that where the employee may appeal to some superior officer or outside agency such as the Civil Service Commission whose decision shall be final. This, however, raises the whole question of the power of appointing officers to remove, which applies to all tenures except those for life, which is of such importance that it is desirable to give it special consideration in another place. It is only mentioned here as having a very direct bearing upon the question of tenure.

**The Merit System.** So self-evident is the desirability that the personnel system of a government should rest squarely upon a merit basis, as regards both the selection of entrants for the service and their subsequent advancement, that it would not be necessary to mention this factor under the head of general considerations but for the fact that it has been, and still is, so largely disregarded in the United States. It is a matter of common knowledge that a prime

characteristic of the personnel system of American governments is the extent to which they have been, and now are, dominated by what is known as the "spoils system." This system rests upon the principle that public office constitutes a spoils to be enjoyed by the political party victorious at the polls and finds expression in the phrase, "To the victors belong the spoils."

It is difficult to exaggerate the harm that the application of this principle, if it can be called such, has done and is doing in the way of demoralizing American political conditions. The evils inherent in it are so manifest, and have been so repeatedly pointed out, that there is no need of dilating upon them here. It will be sufficient merely to mention certain of its outstanding features that should lead to its condemnation.

First, and in some respects most important of all, it carries with it a profound degradation of the general political life of the nation. It tends to place the contest of political parties upon a materialistic plane of struggle for selfish advantage rather than one for the achievement of ends looking to the public welfare. It not only induces men to engage in political activities from motives of selfish interest rather than public service, but ensures that such self-seekers will largely control the party organizations and policies. In no small degree it is responsible for that outstanding political evil, the party boss and the political machine. As in the case of adverse selection in the biologic field, it tends automatically to eliminate from active political life the best elements of the population and to bring the less fit to the top.

In the field of actual administration of public affairs its effects are no less disastrous. The system necessarily carries with it the negation of almost all the principles that must obtain if a really efficient personnel system is to be secured. Under it there can be no such thing as permanency of tenure, since each change in political power, and to a considerable extent, each change in administration in the same party means the dismissal of existing incumbents of office and their replacing with others as rewards for party services rendered. Though some consideration may be given to the matter of the qualifications of appointees for the offices to which appointed, there is no pretence of seeking to select those most competent. Even if reasonably competent persons are secured there is, under the spoils system, no inducement for them to render the best services of which they are capable, since they are only too well aware that their retention in office and their advancement are dependent on the political influence that they can exert or the further political services that they can render rather than on the manner on which they discharge the duties of their offices. Anything like a development of a true *esprit de corps* and the feeling of respon-

sibility and desire to excel that must be present if real efficiency in action is to be secured is thus impossible. Finally, the system carries with it the constant temptation for government employees to make an illegitimate use of the powers of their offices to promote the welfare of their political parties or that of political chieftains to whom they are indebted for their offices.

In contrast with this, the merit system avoids all these evils and in a positive way lays the basis for the adoption of all those other principles of personnel administration that must be followed if a really efficient system is to be secured. It means a purification of political life, the doing of justice between citizens in respect to their selection as officials and between employees in respect to their advancement, the endorsement of the principles of permanency of tenure, and that of making the government services offer permanent careers to their employees, and it removes the temptation from government employees to misuse the powers of their offices for partisan and personal ends. Without the adoption of this principle it is, in a word, almost impossible to do those other things which must be done to put this great branch of public administration upon a proper basis.

**Movement for the Establishment of the Merit System in the United States** The history of the movement for the establishment of the merit system in the United States has been repeatedly written and need only be summarized here. For the first thirty years of our national existence there may scarcely be said to have been a personnel problem from the modern standpoint. The number of government employees was comparatively few and they were selected without reference to any formal method and, in the main, in a satisfactory manner. With the rise of the party system, however, there developed a feeling that it was only proper that the government should be manned by adherents of the party in power, which feeling was reinforced by the direct party advantage to be secured by using public office as a means of rewarding party workers. A foundation for action in this way was laid by the passage in 1820 of the "Tenure of Office Act," which provided that district attorneys, collectors of customs, and certain other officers should be appointed for a term of four years and be removable from office at pleasure. It was not until President Jackson came into office in 1829, however, that full use of the opportunities thus afforded was made. During his administration postmasters were added to the list of federal employees holding office for a four-year term, and more employees were removed from office in order to make places for new appointees than had been removed during the preceding forty years. Senator Marcey's classic phrase,

"To the victors belong the spoils," became the guiding principle, and what is known as the "spoils system" became firmly established. Though the evils of this system were repeatedly pointed out, this system continued to dominate the political life of the nation for many years, and, it need hardly be said, still continues as one of the factors profoundly influencing the public service.

Following the Civil War and the great increase that then took place in the scope of governmental activities, a movement arose to abolish this system and to substitute in its place one where employees should be selected without reference to their political affiliation, should not be subject to dismissal for political reasons, and should be restrained from engaging actively in politics while holding office. This movement was strengthened by action taken by England to meet this same problem. In 1854, a committee, of which Macaulay was a member, presented its famous report recommending that places in the Indian Service should be filled as the result of competitive examinations. This report was approved, and for the first time there was established a merit system on a large scale. This system was rapidly extended to the home service, and the old spoils system was finally and definitely abolished by an Order in Council issued on July 4, 1870. For the administration of this system, provision was made for a Civil Service Commission.

In the United States, leadership of the movement for the establishment of the merit system was assumed by Thomas Allen Jenckes, a representative in Congress from Rhode Island. In 1868 he submitted, as chairman of a joint select committee on retrenchment, an exceedingly able report on the subject. Following this a law was passed in 1871 authorizing the President to make regulations to govern admissions to the public service. President Grant appointed a commission of seven members, of which George William Curtis was made chairman, to put this law into effect. The law, however, was inadequate, and Congress was not yet prepared to support the system. It refused to appropriate money for its support, and the commission went out of existence. President Hayes, who came into office in 1877, was, however, a strong supporter of the reform and revived the commission with Dorman B. Eaton as its chairman. In 1881 the National Civil Service Reform League was established, with George William Curtis as its first president, a body which has ever since been one of the strongest influences in securing action looking to the establishment of the merit system. Largely through its efforts, Congress was induced on January 16, 1883, to pass the Pendleton Act, which established the present Civil Service Commission and definitely inaugurated the system of competitive examinations for the recruitment of public employees.

The establishment of the merit system in the United States may be said to date from the passage of this act. In the same year

New York passed an act also providing for the merit system and entrusting its execution to a Civil Service Commission. Massachusetts followed suit in 1884. To date, eight other states have taken similar action. In addition a large number of cities have likewise adopted the merit system. Mr. Marsh, Secretary of the National Civil Service Reform League, stated that in 1922, seventy-two of the hundred largest cities, as returned by the Census of 1920, had adopted this system in whole or in part.<sup>4</sup>

Although the movement for the establishment of the merit system has been definitely inaugurated and is making steady progress, it has to go a long way before its objects are completely accomplished. In many states and other political subdivisions, the spoils system is still in full force. Even in these states and cities where action has been taken, the system is by no means complete or satisfactory. Particularly is this true in the case of the national government, where many important positions, both at Washington and in the field, are still filled by political appointees. The complete establishment of the merit system, thus, still constitutes one of the fundamental reforms to be accomplished before the personnel system of our governments can be put upon a proper basis.

<sup>4</sup>Edward Olark Marsh, *The Civil Service*, Publications of the National Civil Service Reform League, 1922.

activities of government in the United States had to do primarily with the so-called essential functions of government. Only in comparatively slight degree had governments entered the field of positive constructive work for the promotion of the public welfare through the construction of public works, the maintenance of services for the promotion and regulation of commerce and industry, and the fixing of labour and social standards. In those times government services were deemed to embrace but two classes of employees: a directing personnel composed of persons holding office as the result of political elections or personal appointment by officials so elected, and a general body of clerks and labourers. Under these conditions it must be admitted that both the necessity of, and basis for, a personnel system resting upon the principle of offering a permanent career to its members were, if not lacking, at least not so much in evidence.

Under present conditions all this is changed. Now our governments, and particularly our national government, have taken upon themselves the performance of activities calling for employees of the highest competence and a range of technical qualifications in almost every field of human endeavour. Whatever may have been true of the past, there can be no question that now the need is imperative that the personnel systems of our governments shall be such as to secure and retain the highest possible class of technical employees; and this can only be attained by making the services such as will afford a permanent career to their members.

With the ground thus cleared of these general considerations, we are in a position to consider the concrete action that must be taken by governments if their services are to offer permanent careers to their personnel.

**Nationalization of Field Establishments.** In the national government at least, the greatest advance that can be made in the direction of making service in it a career, is that of organizing its great administrative services, such as the Postal Service, the Customs Service, and the Internal Revenue Service, upon a basis where this principle will find expression. To do this a fundamental change in their character must be made. At the present time each of the hundreds or thousands of field stations in which the real work of these services is done is treated practically as an independent unit. To a considerable extent each is viewed almost as a local office of the state or district in which it is located and to be run primarily as a matter of local concern. From the personnel standpoint each is, in effect, an independent unit. Its directing head, in practically all cases, is not only appointed from among residents of the districts, but the real selection is made, not by the directing head of the service, but by the local representative of the district

in Congress or of the party organization. Only in exceptional cases is a vacancy filled by promotion from the ranks. Practically never is the head of a station, who has proved his competence, transferred to a more important post in the service. To make matters still worse appointments to these positions are made for the most part for terms of four years. In like manner the subordinate personnel, even though they are selected through competitive civil service examination, are taken from the district in which the station is located and have little or no prospect of promotion except within the particular station to which they are attached. Even here, they are debarred from any reasonable expectation of rising to the top as the result of faithful and conscientious discharge of their duties.

It is difficult to conceive of a scheme of organization more adapted to deprive a personnel of incentive for good work, to stifle ambition for advancement within the service, or to tie the hands of a central administration desiring to put its service upon a really efficient and economical administration. No private enterprise would undertake to conduct its affairs upon any such basis for a moment. Not the first beginning is made toward treating these services as ones offering permanent careers to their personnel. No pretence is made of building up a corps of directing officers, representing a selection of the most capable. Except in respect to the subordinate personnel, and then within very narrow limits, no emphasis is laid upon efficiency in the performance of duty.

In thus urging the desirability of giving permanence to the higher personnel of the field services and of placing those services upon a really national basis as regards organization and personnel, the writer is not actuated solely by theoretic considerations. He has had practical experience under both systems, and is personally familiar with the good results that have followed in passing from the first to the second system. For six years he served as Treasurer of Porto Rico. Among the various duties that he had to perform in that capacity was the collection of the general property tax. For that purpose the island was divided into sixty-six districts, corresponding to the sixty-six municipal districts into which for purposes of local administration the island has been divided. At the head of each district was a collector of taxes. The theory upon which this service was organized was that now obtaining in respect to most of the field services of the national government. Each office was a local office. There was practically no such thing as a man moving from one office to another. All this was changed by the writer. The service was unified. The several districts were arranged in classes according to their importance and a scale of remuneration for the collectors in charge was fixed, running from \$480 per annum in the case of the least important, to \$2000 in the



case of the most important. There are probably eight or ten classes between these. The practice was then established of filling superior positions strictly by promotion and for merit. A man entered the service as collector at a small town with a salary of but \$480 per annum. If efficient, he was transferred from post to post until the higher positions were reached. The service, in a word, was made a permanent career for its personnel. The result more than justified expectations. A genuine *esprit de corps* was developed. The collectors knew that promotions depended upon their collecting the taxes and performing their other duties properly. The result was that in a few years the amount of uncollected or delinquent taxes for the island as a whole had been reduced to less than two per cent, a record which it is doubtful few or any states can exceed.

Later, as Secretary of the island the task fell to him of drafting a revised police law. In Porto Rico the policing of the island is done by a single insular police force of about eight hundred men. Having in mind the success following the unifying of the tax collection service the same principle was adopted in preparing the draft for the police system. The island was divided into sixty-six districts, corresponding to the municipal districts into which, as stated, the island is divided, and a district chief was placed in charge of each. These were arranged in a hierarchy, with graduated salaries precisely as in the tax collection force, and the same principle of filling positions by promotion was adopted. Equally favourable results were obtained from this law. A man now enters the service as a permanent career. He knows that he can be advanced from post to post as he merits such promotion.

It may be that in the past there were reasons for thus emphasizing so strongly the local character of the field agencies of the national administration. It is certain that it will be urged in its favour that this system is congenial to our historical traditions and political institutions; that it represents but one phase of the predilections of the American people in favour of a local as against nationalized administration of public affairs. Whatever may have been the validity of these arguments in the past, all basis for them has passed away. The time has come when these great field establishments should be made integrated services on the model of the services of Porto Rico that have been mentioned, in which transfers can be freely made from one station to another, and in which the selection of those to direct the more important posts will be made from those who demonstrated their competence in subordinate positions.

Taking this section, it will be observed, is but applying to these services the same principle that obtains in the military and naval

establishments, in certain civil services, such as the Coast Guard and the Public Health Service, that have been organized along military lines, in so far as their directing personnel is concerned, and which has had a notable extension in the recent reorganization of the Foreign Service of the State Department under the Rogers Act of May 24, 1924. This act may be deemed to be a model measure for erecting a service of the government into a distinct career service. It has as its primary aim to provide that the service shall be one into which young men shall enter with a view to making it their life work. It provides that the Diplomatic and the Consular services, which were formerly distinct, shall be united in a single service to be known as the Foreign Service of the United States; that this service shall embrace nine distinct classes of "Foreign Officers," with salaries running from \$3000 to \$9000 per annum, in addition a class of unclassified officers with salaries of from \$1500 to \$3000 at the bottom of the scale, and ministers and ambassadors at the top; that these officers shall be assigned to particular posts, such as consuls, secretaries of legations, etc., in accordance with the judgment of the State Department; that they may be freely transferred from one post to another; that normally entrance will be at the bottom and promotion from one grade to another will take place upon demonstrated merit, until the rank of minister and ambassador is reached; and that further advancement to the highest positions can be made, though direct appointment from private life to these positions is permissible and will in many cases be made. Provision is finally made for a liberal retirement system upon part pay upon the officer becoming disabled or reaching a certain age.

That this system represents an enormous improvement over prior existing conditions, is recognized by all. There is little doubt that efforts will be made to recognize other field establishments upon the same basis. In point of fact, since the foregoing was written, Congress on March 3, 1927, passed an act establishing a similar service to cover the field offices of the Bureau of Foreign and Domestic Commerce of the Department of Commerce, the commercial attaches, trade commissioners, and the like.

**Erection of Special Classes of Work into Careers.** In the foregoing we have examined the problem of so organizing the field services of the national government that they will offer permanent careers to their directing personnel. It remains to consider the extent to which it is feasible to make the government service a career for other classes of employees. Here a distinction must be made between employees whose work is of a technical or scientific character and those who are called upon to perform only general

clerical and other labour. Consideration will first be given to the first of these two classes.

It has been pointed out that more and more the national government is demanding the services in large numbers of persons possessing professional and technical qualifications of a high order. Under present conditions it is exceedingly difficult for the government to secure these men or to hold them after they are secured. This is due only in part to the inadequate compensation that in many cases is paid for this class of service. In large degree it is due to the failure to give to these positions that definite status that will offer a permanent career to their incumbents.

The first requirement in seeking to give them such a status is that these positions should be carefully segregated, not only from the general clerical and labour positions, but also from each other. This done, there should then be worked out a carefully graded hierarchy of positions, with corresponding compensations, for each class of such technical positions, together with specifications and regulations prescribing the qualifications for entrance into and advancement in such special services.<sup>1</sup>

This process of segregating and specially classifying certain technical positions can, and should be, carried much further than might at first sight appear to be feasible. Manifestly, it would apply to all positions calling for the exercise of professional knowledge, strictly speaking, such as that of law or medicine. The same is true of those positions calling for scientific qualifications, such as those of geologists, chemists, physicists, engineers of all classes, etc. There are, however, many other positions in the national government requiring for the proper discharge of their duties very special abilities, training, or experience. Such, for example, are the positions of patent examiners, claims examiners, bookkeepers and accountants, statisticians, and, indeed, specialists of all kinds. Nothing short of a careful examination of all work of the government will make known the extent to which positions of this character exist and should be set up as a special class.

Examination will show that the attempt to make of each of these classes of positions a special category, affording an opportunity for a permanent career to its personnel, constitutes a problem quite distinct from that of erecting distinct services into careers for their directing personnel. The positions comprehended in each class, instead of being in a single service, are in the majority of cases scattered through many services. The government, for example, makes use of scores of accountants, statisticians, etc., attached to a large number of distinct services. The problem is one of or-

<sup>1</sup>See Chapter XVII, "Classification and Standardization of Positions and Salaries."

ganizing each kind of technical position into a special class which, for classification purposes, disregards service lines, thus permitting transfers freely between services as promotion requirements render necessary. There are certain cases where this disregard of service lines will not be necessary. Examples of such cases are afforded by the corps of patent examiners of the Patent Office and the geologists of the Geological Survey. In these cases each class may be made a distinct career within a service. In many cases, however, this will not be so. The government will have need of technicians of the same kind in small numbers in a large number of services. This is the case in respect to such positions as those of bookkeepers and accountants, statisticians, engineers, etc. If these positions are to be made ones offering a career to their holders, provision must be made for transfer from one service to another.

The great advantage of treating positions in this way is the broadening and equalization of opportunities for promotion. Where there are only a few positions of any one of these classes in the same service and promotions are largely made only within service lines, the opportunities for promotion are so limited as to offer no real incentive to good work. Again, conditions will be much improved from the standpoint of the services themselves, since they will not be restricted to their limited personnel in securing technically competent men for important positions.

In connection with this whole question, it should be noted that a regrouping of the services along functional lines, to the end that all services working in the same or closely related fields will be brought together under the same department, will not only effect a great administrative reform but will also simplify greatly the working out of the problem now under consideration. Thus, for example, if all the engineering and construction services of the government, such as the services of the Engineer Corps of the Army for the improvement of rivers and harbours, the Bureau of Roads of the Department of Agriculture, the Office of Supervising Architect of the Treasury Department, the Bureau of Reclamation and the Alaskan Railway of the Interior Department, etc., are brought together in a Department of Public Works having no other function than the prosecution of engineering and construction work, the basis will be laid for the creation of a corps of engineers, similar to the famous *Corps des Ingenieurs des Ponts et Chaussées* of the French Government, and like it offering a permanent career to employees of this class. In like manner, the bringing together of services having to do with such matters as public health, education and scientific research will greatly aid in the erection of their technical and professional forces into services offering a permanent career.

**Treatment of the Clerical Personnel from Career Stand-point.** Turning now to the class of positions requiring only ordinary clerical abilities, it is evident that the problem of making them such as to offer a career to their holders is quite different from that presented in the case of the directing personnel of services and technicians which we have been considering. Here all that can be done is to establish them upon such a basis that merit will be the controlling factor in determining entrance into, and advancement in, the service, that proper provision is made, through efficiency record systems or otherwise, of determining efficiency and of so classifying the positions and fixing the compensation attached to them that employment conditions through the government service will be standardized and the lines of promotion be clearly indicated. At the present time what amounts to almost a dead line is drawn at the positions of chief clerk or chief of division, the prevailing salaries for which are \$2000, and \$3000. Up to this point the government employee may look upon this service as one in which he may hope for advancement as he shows merit. Beyond this lie the positions of the real directing head of the services, the positions that constitute that posts that are really worth while; indeed, the only ones offering a really effective incentive to persons to adopt the government service as a career. Remove this barrier; make it possible to pass as a matter of normal promotion from the position of chief of division to assistant chief of bureau, chief of bureau, and assistant secretary, and the government service at once becomes one offering a real career. Not merely will action in this way afford attractions to the ambitious to enter the service that do not now exist, but a strong stimulus will be given to persons in the service to discharge their duties efficiently and by study and research fit themselves for the discharge of the duties pertaining to the superior positions.

Under this system when a vacancy occurs in an important position, such, for example, as that of assistant secretary, or chief of a bureau, the appointing power—the Secretary or the President—will canvass the qualifications of the chiefs of divisions in that particular service affected. If just the right man is not found within such service, the qualifications of persons holding important positions in other services engaged in analogous lines of work will next be scrutinized. Only after it is found that a man having the qualifications desired cannot be obtained within the government service, will resort be had to persons outside the service. In this case selection will be made through some selective process such as is represented by a competitive examination. There can be little reason to doubt that resort to this method will only be had in exceptional cases, since the appointing power will certainly prefer to select one whose qualifications and personal characteristics are

definitely known rather than run the risk involved in holding in open competitive examination. There will, however, be a few cases where highly technical or specialized qualifications are desired, where the administration will want to go outside the government service. Indeed, a case will now and then occur where the services of a particular individual are desired, and where resort will be had to the power of the President to except such specific appointment from the general rules regulating appointments.

**State, Municipal, and Local Government Services as Careers.** Turning now to a consideration of the question of making service in the state, municipal, and local governments a career, it will be found that the conditions of the problem are radically different from those obtaining in the case of the national government. In order that a service may constitute a career, it is necessary that it should offer reasonable opportunities for advancement. This can only exist where the service is of considerable size. This condition is met in the case of the national government, but it obtains only to a limited extent in the case of the states and their political subdivisions, considered individually. If service in these governments is to be made a career, it is necessary that opportunity shall exist for the passage by employees from the service of one government to that of another. To a very considerable extent the states and their political subdivisions have need of the same classes of specialists, such as civil engineers, health officers, school superintendents, etc. If a system could be established where these positions were taken wholly out of politics and thrown open to all persons possessing the required qualifications, regardless of political boundaries, there is no reason why persons should not select such work as their permanent profession. It is a matter of congratulation that a strong tendency in this direction can now be seen. This is especially evident in the case of the positions of city engineers, state highway engineers, school superintendents, and health officers. It is by no means unusual for a state or municipality, in filling one of these positions, to select a person who has already demonstrated his abilities in a corresponding position in some other state or city. In Germany this practice obtains as the standard method of filling the positions of chief executive of the municipalities. Should the municipal manager type of government spread, it is more than likely that a similar practice might develop in this country in respect to that office.

## CHAPTER XVI

### TRAINING OF PUBLIC EMPLOYEES

With the increasingly technical character of governmental activities and the corresponding increased demands for officers and employees having the special qualifications necessary for their work, the question is presented as to whether special provision should be made for training the persons to fill at least certain classes of positions. It is evident that this question has an intimate relation to the one that we have just been considering. To the extent to which distinct services or classes of positions offer careers of a professional or technical character, the basis is laid for the establishment of means by which persons desiring to enter these services or to secure advancement in them may pursue studies that will give them the knowledge required for the efficient performance of their duties.

**Training for Entrance into the Government Service.** In considering this question a distinction must be made between the training of persons for entrance into the government service and the training of officers and employees after they have entered the service. In times past not a little attention was given to the matter of the creation of a civil academy that would perform for the civil branch of the national government a service analogous to that performed at West Point and Annapolis for the military and naval establishments. Attractive as this idea may be from a theoretical standpoint, it is more than doubtful whether it is one that is either desirable or feasible. The training needed for the army and navy is of a highly specialized character and one which the ordinary educational institution is not fitted to provide. In contrast with this, the work of the civil services is of the most varied character and almost identical in character to that of private undertakings. This being so, there would seem to be little doubt that training for most of the work of governments can best be obtained in the ordinary educational institutions of the land. To state this in another way, there would seem to be no reason why the government cannot look to the law and medical schools, the institutes of technology, and the schools of accounting and business administration for the training of persons contemplating entering the government service as law and medical officers, chemists, physicists, accountants, statisticians, etc. The only qualification to this

is that it is probably desirable that these institutions shall have in mind the special needs of the 'governments,' and, in certain cases at least, give special courses to meet such needs. Especially is this true in respect to the instruction given in political science. At the present time this instruction is apt to be largely of a theoretical character. It is highly desirable that it shall be supplemented by courses dealing more particularly with the problem of government from the operating side, the manner in which legislative bodies are organized and carry on their work, the organization and procedure of judicial tribunals, and the more technical problem of organization, personnel, material, and finance that confront the administrative branch. It is in this direction, rather than in the creation of a special academy, that progress can best be had in training persons for entrance into government services.<sup>1</sup>

To this statement certain exceptions should, however, be made. Here and there are government services in respect to which there is room for the organization of special schools and courses for the training of men to enter such services. The schools that have been established at Washington for the training of men to enter the Foreign service of the State Department or the field agents of the Department of Commerce have undoubtedly rendered a valuable service. The School of Hygiene at Johns Hopkins University also renders a real service in the training of men for work in the field of public health administration rather than in the training of medical practitioners. In general, however, it must be said, that the best means of training men for entrance into government work is to be found in ordinary institutions of higher instruction.

**Training of Employees in the Government Service.** Turning now to the question of the extent to which it is desirable to provide for the training of officers and employees after they have entered the government service, we are confronted with quite a different situation. No matter how well grounded an employee may be in the general subject to which his work relates, there is much for him to learn in respect to the particular duties of his position. The question is, thus, presented to the directing heads of the several services as to whether it will not be in the interest of economy and efficiency to provide for their employees systematic

<sup>1</sup>In 1913 the American Political Science Association appointed a committee to investigate this subject. This committee recommended that the universities establish courses having specially in view the training of students for entrance into the public service, to be supplemented where possible by training in the actual conduct of public work. This report probably had some influence in leading universities to emphasize the practical side of their instruction in political science and economics. See Report of the Committee on Training for the Public Service, American Political Science Association, 1913.



instruction instead of depending upon the individual efforts of such employees to familiarize themselves with their duties.

Until a few years ago, if exception be made of the service schools of the army and navy, practically nothing was done by the services of the national government to make systematic provision for the training of their employees. A great change in this respect has, however, recently taken place. In a number of important services, provision has been made for the organized instruction of their employees on a large scale. In the War Department officers have been detailed to various universities to take special courses in such matters as purchasing and the handling of problems of supply. In the Bureau of Internal Revenue an elaborate system of instruction of Collectors of Internal Revenue and Examiners in the Income Tax Unit of the home office, through the correspondence method of instruction has been organized. In the State Department those admitted to the Foreign Service are required to spend a year at Washington, where they receive systematic instruction in the duties that they will be called upon to perform. In the Forest Service and other services of the Department of Agriculture similar efforts are being made in this way. There can be little doubt that the adoption of this policy of making special provision for the training of employees has been a wise one, and its extension may be confidently expected.

In providing for training of this character, several different lines of procedure are open. The services can themselves undertake the work, making use of members of their own staff as instructors; they can make special arrangements with outside institutions to give the instruction needed; or they can detail the employees whom it is desired to train to pursue work at the various universities. Which of these methods is the preferable one, will depend upon the circumstances of the particular case. When the number to receive instruction is large and the character of the training a special one, as in the case of the Bureau of Internal Revenue, the first method is to be preferred. When these conditions do not obtain, one or the other of the two methods is probably the desirable one. This is the condition which generally obtains in the governments of the states and municipalities. Here progress can probably best be made by the several services determining in definite form the character of the instruction or training desired, persuading local educational institutions to organize special courses that will give such instruction and detailing their employees to follow such courses. There ought not to be much difficulty in making such arrangements in all of the larger cities and especially in those states having state universities. In concluding this discussion it may be pointed out that the Bureau of Municipal Research and kindred institutions

render a valuable service, as a by-product of their work, in training men for official positions of an administrative character, and resort is constantly had to them in filling positions of this character.<sup>2</sup>

<sup>2</sup>On this subject see Practices and Objectives in Training for Foreign Service: Report of the National Conference on Foreign Service Training, Washington, December 26, 1923, Bulletin U. S. Bureau of Education. 1924, No. 21, and Service School for Federal Employees. Letter from Chief of the Bureau of Efficiency, 66 Cong., S. doc. 26, March 3, 1920.

## CHAPTER XVII

### CLASSIFICATION AND STANDARDIZATION OF POSITIONS AND SALARIES

In the chapters immediately preceding consideration has been had of those general features of a public personnel system that go to determine its fundamental character. This was necessary in order to pave the way for the examination of the more technical problems involved in securing and maintaining an efficient personnel system.

Among the technical requirements of a satisfactory personnel system, none exceeds in importance that of effecting a systematic classification and standardization of all employees, or, to speak more correctly, of all positions covered by the system. Such a classification and standardization of public employment constitutes, indeed, the starting point or the basis upon which the whole personnel structure must rest. Without it, it is impossible to have a satisfactory personnel system or properly to meet the many problems to which personnel administration gives rise.

**Essentials of a Classification and Standardization System.** What is meant by a classification and standardization of positions and salaries can best be shown by reproducing the essential requirements of a work of this character as given by one of our leading students of personnel administration, Mr. Fred Telford, Director of the Bureau of Public Personnel Administration. In a paper entitled "The Classification and Standardization Movement in the Public Service," he wrote:<sup>1</sup>

The essentials may briefly be stated as follows:

1. The collection of detailed facts with regard to the duties attached to each individual position, with regard to its place in the organization unit in which it occurs, and with regard to the functions, organization and administrative procedure of organization units.

2. On basis of this information, a grouping of individual positions into classes, each class containing all positions so nearly alike that the same qualifications may be demanded of incumbents for the proper performance of the duties and responsibilities appertaining to them, that the

<sup>1</sup> Annals of the American Academy of Political and Social Science, May, 1924.

same tests may be used in selecting competent persons to fill them, and that the same compensation schedules can be made to apply with equity.

3. A written definition or description for each class of positions setting forth definitely the duties attached to the positions to be included in the class.

4. A written statement of the minimum qualifications—that is the education, the experience, the knowledge, the skill and the personal and physical traits—any individual must possess in order to perform the duties of the position successfully.

5. A title for each class of positions suggestive as far as possible of the duties attached to the positions in the organization unit in which they occur.

6. On the basis of the class definitions and definite knowledge of the duties attached to each position, the allocation to the proper class of every position classified.

7. The lines of promotion, showing the lower classes of positions from which recruiting is normally done and the higher classes of positions to which employees are normally advanced when vacancies occur.

8. The compensation schedules for each class, giving minimum, maximum, and intermediate rates to be paid employees holding positions in the class,

9. To make the whole plan easily comprehensible to the Civil Service Commission, the mayor, the city council, appointing and administrative authorities, civic organizations, persons seeking employment in the public service, and the general public, and to give the budget authorities an easy means of control over compensation, a grouping of classes of positions into broad occupational groups called services, sub-divided into grades according to the degree of responsibility and therefore according to the level of compensation.

The significance of a work of this character can only be appreciated by showing in the concrete its results. For this purpose, there is reproduced below a list of the grand groups or services into which the Congressional Joint Commission on Reclassification of Salaries, in 1920, classified all positions in the national government, a list of classes falling within one of these services, and the detail job specifications for one of these particular classes.

As a result of its survey of the activities and employment needs of the government, the commission found it desirable to distinguish between no less than 1762 distinct positions or classes. These are grouped into the forty-four services listed below:

- I. Services Involving Clerical, Office, or Commercial Work
  1. Administrative and supervisory clerical service
  2. Assessor and appraiser service
  3. Court clerk and docket service
  4. Departmental publications and information service
  5. Fiscal and accounting service
  6. Mail, file and record service
  7. Messenger service
  8. Miscellaneous clerical service
  9. Office appliance operating service
  10. Personnel service
  11. Specialized business service
  12. Supply and equipment service
  13. Telephone and telegraph operating service
  14. Typing, stenographic, correspondence and secretarial service
- II. Services Involving the Skilled Trades, Manual Labour, Public Safety or Related Work
  15. Custodial and janitor service
  16. Detention and reformatory service
  17. Domestic service
  18. Enginemen service
  19. Farms, garden and park maintenance service
  20. Fire service
  21. Investigational and inspectional service
  22. Marine operating service
  23. Police and criminal investigation service
  24. Printing trades service
  25. Skilled trades and labour service
- III. Services Involving Scientific, Technical, Professional, or Subsidiary Work
  26. Actuarial service
  27. Agricultural promotion and extension service
  28. Architectural service
  29. Art service
  30. Biological science service
  31. Chaplain service
  32. Community and recreation service
  33. Economic and political science service
  34. Educational service
  35. Engineering service
  36. Law and examiner service
  37. Library service
  38. Medical science service
  39. Nursing service
  40. Patent service

41. Physical science service
42. Social science service
43. Statistical service
44. Translating service

To illustrate the grouping of positions or classes under these services and the specifications that are prepared for each class, a selection for reproduction has been made of the "Statistical Service" and within that service of the particular position or class of "Chief Statistical Clerk."

### THE STATISTICAL SERVICE

This service includes classes of positions the duties of which are to supervise or to perform scientific work in connection with the collection, classification, analysis, and interpretation of numerical data relating to economic, social or other phenomena, or to supervise or to perform statistical, clerical, or mechanical tabulation work, such as editing and examining schedules and questionnaires, applying statistical formulae and computing ratios, preparing statistical graphs, coding and verifying, or operating punching, verifying, sorting or tabulating machines,

Title	Annual salary			
Mechanical Tabulation				
Assorting Machine Operator.....	\$1140	\$1200	\$1260	\$1320
Tabulating Machine Operator.....	1200	1260	1320	
General Tabulating Machine Operator.....	1560	1620	1680	
Supervisor, Tabulating or Assorting Machine Section (Group).....	1560	1620	1680	
Mechanical Tabulation Examiner (Group) .....	1440	1500	1560	
Supervisor, Mechanical Tabulation Examining Section (Group).....	1800	1920	2040	2160
Principal Mechanical Tabulator.....	1982	2100	2220	2340
Chief Mechanical Tabulator.....	2400	2520	2640	2760
Card Punch Operator.....	1200	1260	1320	
Supervisor, Card Punching Section (Group).....	1560	1620	1680	
Special Card Punch Operator.....	1320	1380	1440	
Supervisor, Special Card Punching Section (Group).....	1620	1680	1740	1800
Mechanical Tabulation Coder.....	1200	1260	1320	
Special Mechanical Tabulation Code.....	1320	1380	1440	
Supervisor, Mechanical Tabulation Coding Section (Group).....	1560	1620	1680	
Junior Mechanical Tabulation File Clerk.....	1140	1200	1260	
Supervisor, Mechanical Tabulation File Section.....	1560	1620	1680	
Special Mechanical Tabulation File Clerk.....	1320	1380	1440	

Supervisor, Special Mechanical Tabulation File Section.....	1560	1620	1680		
Statistical Clerical Work:					
Under Statistical Clerk.....	1260	1320	1380		
Junior Statistical Clerk.....	1440	1500	1560		
Senior Statistical Clerk (Group)	1620	1680	1740	1800	
Principal Statistical Clerk (Group).....	1980	2100	2220	2340	
Head Statistical Clerk (Group)	2400	2520	2640	2760	
Chief Statistical Clerk (Group)	2820	2940	3060		
Statistical Science:					
Junior Statistician.....	1800	1920	2040	2160	
Assistant Statistician.....	2400	2520	2640	2760	\$2880 \$3000
Associate Statistician.....	3240	3360	3480	3600	3720 3840
Statistician (Group).....	4140	4320	4500	4680	4850 5040
Senior Statistician (Group)..					
Director of the Census.....					

### CHIEF STATISTICAL CLERK

*Duties.* Under general direction, to organize or to manage a large and important statistical, clerical, or field organization; to be fully responsible for the statistical output, both as to quantity and accuracy; to determine division of labour within the organization; to lay out an appropriate flow of work through the different processes involved; to select or to advise in the selection of adding, computing and tabulating machines; to devise suitable schedules, work forms and tabulation papers; to keep or to direct the keeping of work forms and tabulation papers; to keep or to direct the keeping of work papers, schedules, tabulation papers, progress reports, efficiency reports, and other records incidental to the management of such an organization; to make recommendations in matters of personnel administration arising within the organizations; and to perform other related work.

*Common Qualifications.* Training equivalent to that represented by graduation from high school; not less than five years' experience in statistical clerical work of a high order, at least two years of which shall have been in a responsible position requiring the immediate supervision and direction of a statistical clerical unit engaged in varied statistical clerical work, or a large statistical clerical unit engaged in simple or routine statistical clerical processes; proven capacity for organizing and managing a statistical clerical or field force; thorough knowledge of modern statistical clerical methods and practice; familiarity with adding, computing, and tabulating machines, slide rules, and other labour-saving devices used in

statistical clerical work, familiarity with the ordinary statistical clerical work; familiarity with the ordinary statistical averages and the methods of deriving them; and ability to plan workmanlike schedules, table forms, graphs, and working papers, to write titles and explanatory notes; and to prepare administrative reports, memoranda and similar papers.

*Special Qualifications.* For each class in the group, thorough clerical knowledge of the subject matter to which the statistics involved relate as indicated by the title of that class,

*Principal Lines of Promotion.* From Head Statistical Clerk; Principal Statistical Clerk.

*Compensation: Annual.* \$2820—\$2840—\$3060.

**Benefits of Classification and Standardization.** It is impossible to read this description and illustration of a properly classified and standardized personnel system without appreciating the extent to which it lays the basis for, if it does not solve all of, the major problems of personnel administration. From the recruitment standpoint it makes it possible for the operating service definitely to determine and to make known to the recruiting agency, the Civil Service Commission, its personnel needs, and for the latter agency to frame its tests in such a manner as to secure the character of ability that it is called upon to supply. It makes possible the fixing of compensation in accordance with the character of responsibilities and duties to be performed and ensures equality of compensation for persons filling positions of the same order. It makes possible the establishment and operation of a promotion system that will at once do justice and tend to bring about advancement according to merit. It furnishes the essential basis for erecting distinct services into ones offering a permanent career for their personnel. And finally, it simplifies the whole budget problem by enabling those having the duty of framing and acting upon the budget to scrutinize with intelligence estimates for personnel and to confine their attention to the number of employees in each class requested without having at the same time to pass upon the difficult question of compensation that should be provided for.

These benefits are so great that it is worth while to reproduce their enumeration in greater detail as given by the Congressional Joint Commission on Reclassification. Under the head of "Summary of Benefits," its report reads:<sup>2</sup>

<sup>2</sup>Report of the Congressional Joint Commission on Reclassification of Salaries, 1920 p. 26.



The Commission is firmly of the opinion that the adoption of the classification of positions and the uniform schedules of pay recommended in this report, and of the proposed plan for the future administration of this classification and these schedules, will bring about the following benefits to the Congress, the departments, the employees and the public at large.

The Congress will secure:

A sound and practical working basis for arriving at the proper rates of compensation in appropriations for personnel services.

The assurance that on this basis salaries and wages will be appropriate at the same rate for the same work in all departments and at all times.

A means of controlling expenditures for personal services paid from lump-sum appropriations or contingent funds, and of bringing them into conformity with the basis observed in itemized appropriations.

The assurance that on this basis the salaries appropriated for positions of different classes will have the equitable relationship that is called for by the difference in the values of the work involved in the respective classes.

The further assurance that the salaries appropriated on this basis will be fair to the employee and to the public as the taxpayer.

A method of adjusting salary scales from time to time as required and justified by changes in economic conditions, in such a way as to permit of discriminating application of increases or decreases which will take into account the relative requirements of the several kinds of employment (as against the arbitrary spreading of bonuses, increases, or reductions over deserving and undeserving classes), and which will not affect the relative status of employees in the same class.

Assistance in the consideration of estimates through the common use by all departments of a specific and uniform terminology for classes of positions, *i. e.*, kinds of personal service.

A means, through this descriptive system of nomenclature, of comparing the organization requirements of different departments and of the same department at different periods.

Relief from the pressure of special requests for changes in the salary appropriations for individual positions or employees or for special groups or departments.

The Departments will secure:

The immediate relief, so vital to the holding together of the experienced departmental organizations, that will come from the adoption of revised salary scales for specialized workers (particularly scientific and technical employees).

Permanent relief from the confusion resulting from the variations in salary scales for the same work in different departments with the consequent tendency toward interdepartmental competition.

A means of expressing their exact organization needs to the appropriating body—the Congress—and the recruiting body—the Civil Service Commission.

All of the direct and indirect benefits that will come from a fair and business-like wage policy and a contented personnel,

The employees will secure:

Immediate relief in cases where they are now inadequately paid.

Uniform justice in the relation between the compensation they receive and the value of their work.

The assurance that all other employees of the Government engaged in the same work are being treated in the same way.

The assurance that all adjustments of pay in the future will have reference to changes in living costs.

The incentive to effort that comes from a knowledge of an assured reward for successful accomplishment—advance in pay for increased usefulness in the same class of work and higher compensation upon promotion to a higher grade of work.

The Public will secure:

The assurance that its Government aims to be a model employer, and to pay each employee in proportion to the value of the work required of him.

One has but to contrast conditions where the personnel has been classified and standardized with those obtaining where this has not been done to appreciate the reality of these benefits and the great monetary savings that are possible under the standardized system. Prior to reclassification in the national government, it was a common thing for employees working side by side on identical tasks

to receive widely divergent rates of pay. Precisely the same positions in different departments or bureaus carried different rates of pay. Only to a slight extent did employees have a definite status as regards their opportunities for promotion. The titles given to positions had often little reference to their responsibilities and duties and in many cases were misleading. The importance of this latter single feature is shown by the following account of conditions in Pennsylvania prior to reclassification, as given by the Secretary of the Commonwealth:<sup>3</sup>

One bureau had adopted the principle of equal pay but forgot to enquire as to the kind of work done for the pay. In this bureau the clerk, the typist, and stenographer all drew the same pay, \$ 1500 per year. The worst inequalities were in statutory salaries. Dignified titles were used as a smoke screen to legislative enquiries. Thus a "building superintendent" had become under job analysis a mere "clerk class B," and one "chief clerk" is now "clerk typist," and one whose statutory salary was based on the title of "auditor" is now a "clerk typist," and one former statutory "statistician" is now a "compiling clerk," and another who told the legislative world that he was a "statistician" is now "tabulating machine operator," and one whose statutory salary title was "investigator" is now "clerk class A". The statute gave one employee the title "adjuster", A job analysis disclosed the fact that this individual had never adjusted anything and had never acknowledged a letter nor written a report. None of the people with these high-sounding titles did the work these titles called for. The titles were devised to get the money. Thus money clerk typists were put on the statutory rolls under the high sounding title of "recording clerk" and no legislator successfully got back of the window dressing to look at goods that were being delivered for the pay.

**Determination of Compensation.** It is evident from what has gone before that one of the prime ends sought by a classification and standardization of employment conditions is to lay the basis for the determination of the compensation of personnel. In handling this phase of the problem attention should be given to certain general considerations. First, the principle should be adopted of compensating the position rather than the individual. Unless this principle is firmly established, confusion in salary rates and inequalities in salaries paid will tend steadily to become greater and greater as time goes on. The writer had this phase of the problem

<sup>3</sup>Clyde L. King, *How Shall Salaries of State Employees Be Fixed?* Annals, May, 1924.

strongly impressed upon him while serving as chairman of the Finance Committee of the Executive Council of Porto Rico, the body which had the duty of preparing the annual appropriation bill for the support of the government of that island. Each year the heads of departments and services submitted estimates calling for the increase in the salary of this or that position. Almost invariably these requests for increases in salaries were urged on the ground that the incumbents of the positions to which they related were exceptionally competent employees, that they had filled their positions for a long term of years, that they could not be held unless granted an increase in their pay, etc. In many, if not the majority, of these cases, these representations were correct. Considered individually, there seemed to be merit in the claims that were made in their behalf.

A moment's reflection will show, however, that if these claims were acceded to, two things would result; salary rates would steadily increase and irregularities in the pay for similar positions would become constantly more accentuated. One year, increases in certain positions would result, the next year increases in certain others. The granting of higher pay for a certain position in one department would lay the basis for a similar claim in other departments the following year. Only in rare cases were compensating decreases in salaries requested. There was but one way in which these requests could be resisted, that, namely, of taking the position that the basis for fixing salaries was the position, not the individual merit of its incumbent; that if a worthy employee was already receiving the maximum compensation attaching to his position, the only way to give him increased pay was through his advancement to a more important and consequently more highly paid position.

There is, however, one means by which the requirements of these cases can in part be met without breaking the general scheme of compensation by positions. This consists in fixing for each position a range of compensation instead of a fixed uniform amount and providing by definite regulations the conditions under which increases in pay may be granted within such range. The merits of this system are incontestable. There are many cases of positions where it is not feasible or desirable that their incumbents should be shifted. Such for example, are in the positions of copyists, typists, stenographers, proof-readers, etc. To deny to them all chance for increase in pay except as they may be assigned to different work, would work a manifest injustice. In respect to most positions, moreover, employees, within certain limits, become more valuable, if not technically more competent, the longer they hold their positions. There is a certain injustice in paying to a new employee the same compensation that is paid to one who has been employed for a series of years. All these considerations can be met by the establishment of a system of minimum and maximum

salaries as above suggested. The regulations can thus provide that all employees on entering the service upon receiving an appointment or transfer to a position will receive at the start the minimum compensation, that they will receive increments of salaries annually, or at such other intervals of time as may be fixed, or under other fixed conditions until the maximum compensation attached to the position is reached. This is the system which largely obtains in the British civil service and is the one recommended by the Congressional Joint Commission on Reclassification of Salaries for adoption by the United States government,

Another principle, which, but for the fact that it is so often flagrantly violated in practice would hardly require statement, is that compensation for a given class of work should vary as widely as degrees of experience, skill, and responsibility involved in its performance. The greatest criticism to be brought against the compensation system of the national government at the present time is the extent to which there is a failure to meet this consideration. The policy seems to have been pursued of making the range of rates of compensation as narrow as possible, regardless of the character of work and responsibilities involved.

Prior to the enactment of the Classification Act of 1923, the compensation system of the national government had as one of its greatest defects the payment of excessive salaries to subordinates and of inadequate salaries to those holding positions of superior rank. The act mentioned remedied this situation in so far as the inferior positions were concerned, but it failed to adjust the pay of administrative officers on a basis comparable with the rates prevailing outside the government for work of similar nature.

**Conduct of a Classification and Standardization Undertaking.** From what has been given above it must be evident that the work of classifying and standardizing the positions and salaries of a government of any size is an undertaking of great magnitude. Particularly is this so in the case of such a government as that of the United States, whose personnel runs into the hundreds of thousands and whose activities are on such an extensive and varied scale. So large a work is it, and so special its character, that it constitutes in itself a problem of administration. Due to this, and the further fact that the states and cities of the United States are now, one after another, undertaking this work, it is desirable to discuss briefly the nature of this problem and methods which it is believed should be employed in its solution.

The first point to be mentioned is that this work of classification and standardization cannot be done by operating services themselves. If it is to be satisfactory, it must be undertaken by some agency standing outside of those services which can view the matter

objectively from the standpoint of the government as a whole rather than the services individually. Such an agency is furnished by the bureau of general administration, when the government has such a service, by the Civil Service Commission, if that body has an organization and staff competent to handle the work, or by a commission specially created for the purpose. In view of the fact that few governments are able to meet the conditions that warrant the use of either of the two agencies first mentioned, the third, that of a special commission, is the one that, practically, should in most cases be employed. And this, in fact, is the method that has been adopted by most of the governments that have undertaken such work.

Secondly, it is important to note that the work is of a highly technical character, requiring a specially qualified or trained personnel for its performance. This must be evident when one considers the nature of the task involved in securing the data required for action, the critical examination of these data, the reaching of decision regarding the many alternatives between which a choice must be made in determining the services, classes, and grades of positions to be recognized and the compensation to be provided and finally, in the writing of the specifications for the individual positions. The securing or training of such a staff constitutes the first task of a reclassification agency.<sup>4</sup>

A decision having been reached regarding the agency to be employed, and that agency having assembled its technical and clerical staff, the next step is to secure the detailed data regarding existing employment conditions in the government under consideration. Concretely, this means securing information regarding the organization of the government and the nature of the work or duties of every employee comprehended within such organization. Information regarding organization can be readily secured by members of the agency's staff specially detailed for that purpose, and be expressed in the form of organization charts or outlines of organization. To secure data regarding the work or duties of the individual employees, use must be made of the schedule or questionnaire method. This means that a questionnaire must be drafted calling for all the information desired regarding each position, and provision made for having them

<sup>4</sup>It is of interest to note that the performance of work of this character, as well as that having to do with other phases of public administration, is coming to be recognized as a profession. In the several Institutes and Bureaus of Government Research there is now a considerable body of men thoroughly competent to undertake work of any character having to do with administrative methods. There are also a number of private firms specially organized to do work of this kind, whose services have been largely availed of by the various governments of the United States.

properly filled in. The information called for by these schedules can be supplied either by the employees themselves or by the section, division, or bureau chiefs having the direction of such employees. In most cases it is believed that the preferable method is that of having the employees fill in the schedules in the first instance and then revised by those in charge of their work. This is the method that was employed by the Congressional Joint Commission on Reclassification of Salaries with satisfactory results.<sup>5</sup>

It is hardly necessary to say that the drafting of a proper form of questionnaire and instructions regarding the manner of its filling in, revision and return is by no means an easy matter.

As this is a matter of such great importance it is thought worth while to reproduce the form of schedule used in one of the most important classification and standardization inquiries—that made by the Congressional Joint Commission, 1920.<sup>6</sup>

## CONGRESSIONAL JOINT COMMISSION ON RECLASSIFICATION OF SALARIES

### CLASSIFICATION QUESTIONNAIRE

**GENERAL STATEMENT.**—The Congressional Joint Commission on Reclassification of Salaries is charged with the duty of reporting what "readjustment of compensation should be made so as to provide uniform and equitable pay for the same character of employment throughout the District of Columbia, \* \* \*". To assist the Commission in ascertaining the "character of employment" in each position in the service it requests that each employee furnish specified information (questions 1 to 22) regarding his own position. The immediate superior of each employee is also requested to furnish certain information (questions 23 to 27). **READ ALL QUESTIONS THROUGH BEFORE WRITING ANYTHING.** Then fill in the answers carefully, and finally reread all questions and answers. Entries must be made in ink or typewriting. This card goes first to the employee, then to his immediate superior, who will return it to the employee for final delivery to the Commission's representatives.

Name.....  
 Organization Unit.....  
 Pay-roll Title.....  
 Basic Salary .....  
 No. ....

<sup>5</sup>When a service is not too large this information may be obtained through personal interviews with individual employees and their administrative superiors. This method is advocated by some personal experts as the preferable one to use where conditions permit. It can also be used in conjunction with the questionnaire method in large organizations.

<sup>6</sup>For another classification form, see Edwin O. Griffenhagen. *The Principles and Technique of Preparing an Occupational Classification of Positions in the Public Service*, *Public Personnel Studies*, November, 1924.

## QUESTIONS BELOW TO BE ANSWERED BY EMPLOYEE

(Read all questions through before writing anything.)

## POSITION

1. By what occupation, name, or title, is your position usually referred to? .....

## PLACE OF WORK

2. Where is your office or place of work? (a) ..... Building  
(b) ..... St. or Ave. (c) Telephone No. .... Branch.....
3. Who is your immediate superior?..... His title?.....

## DUTIES

4. What work do you actually perform in your position? (Answer this question fully in the space provided on the other side of this card.)
5. Do you hold any other Government position? ..... If so, give title and place of work .....

## COMPENSATION

6. What is your present rate of pay, exclusive of bonus? (a)  
\$..... { per month  
                                  per day.  
                                  per hour.
- (b) \$..... per yr. (c) Bonus? \$ .....
7. Are you paid for overtime work? .... If so, at what rate \$ .... per..  
(Yes or No.)
8. Do you receive any remuneration or allowances in addition to your salary, such as board, lodging, etc? .....
- (Yes or No.)
9. If so, state fully what they are .....
10. What supplies, uniform, or equipment, if any are you required to furnish at your own expense? .....

## HOURS OF WORK

11. What are your regular working hours? (a) Hour of Beginning  
(b) Hour of ending..... (c) Minutes for lunch?.....  
(d) Net hours per week?..... (e) Leave per year:  
(1) Annual ..... days; (2) Sick..... days.
12. Do you work overtime?..... (a) If so, how often and during what months?..... (b) How many hours per day on the average on overtime days?.....
13. Do you work full time or part time in this position?.....

## SUPERVISORY RESPONSIBILITY

14. Are you responsible for the direction or supervision of the work of others?.....



(Yes or No.)

15. If so, how many?..... 16. What is the aggregate of their annual salaries? \$.....
17. List below the titles of occupations of the employees under your supervision and indicate the number of each kind.
- .....
- .....

PERSONAL DATA

18. What is your age? .....yrs.....mos. 19. How long have you been in your present position doing substantially the same work as that described in your answer to question 4?..... yrs. .... mos..... Since.....

(Year.)

20. At what salary did you start in your present position?
- \$..... { per month.  
per day.  
per hour.
21. How long altogether have you been in the civilian employ of the United States Government or of the municipality of the District of Columbia?.....yrs.....mos.
- Since..... 22. At what salary did you first enter the (year.)
- Service? ..... { per month.  
per day.  
per hour.

NOTE

Before signing this certificate, read over all of the questions and your answers and make sure that you have given the information called for in each case. After your immediate superior has made his notations on your card, and it has been examined by the Bureau or Division Chief it will be returned to you for your final signature and for delivery to the Commission's representatives.

CERTIFICATE

I hereby certify that my answers to all of the questions in this Questionnaire are in all respects correct to the best of my knowledge and belief.

Date.....1919

Signed: { Mr.  
Mrs. ....  
Miss

(Sign Full Name.)

QUESTIONS BELOW TO BE ANSWERED BY IMMEDIATE SUPERIOR

(Read all questions through before writing anything.)

23. What is the work actually performed by the employee to whom this Questionnaire is addressed? (Please answer this question fully in the place provided in the lower part of the other side of this card.)

24. In your opinion is there any material difference of fact between the statement in your answer to question 23 and that given by the employee in answer to question 4?.....  
(Yes or No.)

25. If so, in what essential respects do they differ?.....  
.....  
.....

26. What qualifications do you think applicants who seek to be appointed to this position should possess?.....

(a) As to education?.....  
.....  
.....

(b) As to length and kind of practical experience?.....  
.....  
.....

(c) As to personal characteristics?.....  
.....  
.....

27. Have you read all the answers made by the employee to whom this Questionnaire is addressed?.....

(Yes or No.)

Signed:.....

Title:.....

Name of Office or Section.....

EXAMINED BY:

.....Date..... 1919.

(Bureau or Division Chief.)

## CLASSIFICATION QUESTIONNAIRE

### STATEMENT OF DUTIES AND OF WORK PERFORMED

TO THE EMPLOYEE

(See question 4 on other side.)

Describe your work by listing the various tasks you perform. List your regular duties first and your special or occasional duties last. Explain each task in a separate paragraph and make your description as detailed as space will permit. Number each paragraph and in the columns to the left show the hours per day or days per month or the percentage of your total time that you estimate you give to each duty in the normal course of your work. Not only the successful progress of the work of this Commission but the proper classification of your own position depends largely on the completeness and correctness of your description of your work. After you have completed your statement,



It will be noted that this form calls for considerable data regarding other matters than those pertaining strictly to classification and standardization. This is due to the fact that the inquiries had to do with other problems of personnel as well as that of classification. If the inquiry relates strictly to the latter point alone, many of these queries may be omitted and the forms correspondingly shortened and simplified.

With the information furnished by these questionnaires in hand, the reclassification agency then has the task of determining what positions should be recognised in the classification to be recommended by it, the classification of these positions into a hierarchy of distinct services, the writing of the specifications for each of these positions, and the determination of the compensation that each shall carry.

**Installation of Classification System.** Having determined the different positions comprehended by the personnel system being classified there is presented the problem of installing this system. This consists in the assignment or allocation of the existing personnel to the particular positions that they should have under the new scheme and the making of the necessary readjustment of pay.

It is hardly necessary to point out the difficulties that the accomplishment of this task presents. Theoretically, all that is required is to make an examination of the nature of the work and existing compensation of each employee, his or her length of service, personal qualifications, etc., and, on the basis of this information, to determine the particular position in the new scheme that he or she should occupy. Actually any such procedure would require the readjustment of so many salaries, many of which, unless the cost of personnel compensation is to be increased, would take the form of reduction of compensation, and would thus entail such hardships on the existing personnel who were in no way responsible for defects of the old system, that its unqualified use could hardly be entertained.

In view of this, the proper method is to establish for each service the scheme of positions that it should have, and to assign its existing personnel force to such positions, with the proviso that where an employee was receiving a compensation in excess of that carried by the position to which he was assigned he should continue to receive such compensation, but that all new appointments should be made at the new rate. The result of this procedure would be that some time would elapse before the new system, in so far as standardization of salaries is concerned, would be fully installed. There would, of course, be cases where the compensation being paid was so grossly excessive for the work to be done that it should not be allowed to continue. The agency having responsibility

for performing the work of installation should accordingly have authority to handle such cases upon an equitable basis.

The adoption of the procedure above outlined is desirable not merely from the standpoint of avoiding the hardships to existing personnel through the undue reduction of their compensation, but also in order to meet another practical difficulty. In allocating employees to particular positions it is certain that every effort will be made to do so in such a way that these employees will not have their salaries reduced. Unless the provision is made that, as a general rule, employees will continue to receive their old salaries where such salaries are higher than those under the new system, many cases will occur where the position itself will be given a higher grade or standing than is warranted by the nature of the duties pertaining to it. This, manifestly, would be more injurious to the interests of the government than the payment of the higher salary, since such allocation of positions would be permanent, while the payment of the higher salary would continue only so long as the particular employee receiving the higher salary occupied that position. To sum up, while an exact allocation of position and of personnel to these positions can at once be made, exceptions must temporarily be made in respect to the bringing of all salaries to the standardized system called for by the new system.

Another feature of the work of installation of the new system is that of determining the agency or agencies that shall make the installation; that is determine the allocation of positions, assignment of personnel to these positions, and readjustment of compensation. Manifestly, the directing heads of the several services must co-operate in this work, since they have the most direct knowledge of the employment needs of their services and the qualifications of their employees. The matter cannot, however, be left solely in their hands for two reasons. In the first place, it is to their interest to secure the highest grades of positions possible under the new system. Unless controlled, it is certain that a too liberal interpretation will be made of their needs for high grade positions and a too great effort will be made to protect the interests of their existing personnel. Secondly, if each service is allowed to handle this matter for itself, one of the chief ends sought by the whole undertaking, that of standardization of employment conditions throughout the government, will not be attained.

Due to this, it is essential that final authority in respect to the work of allocation shall be vested in some agency which is itself not an operating service, but represents the interests of the government as a whole. The ideal agency for this purpose is the one that has made the classification and standardization inquiry, since this is the one that is not only familiar with all the features of the new

system but already has in its hands detailed data regarding existing employment conditions. In performing this duty, it works in two ways: it can either make the allocation in the first instance and submit the results to the heads of the several services for criticism and suggestions before taking final action; or it can have the allocation made first by the services and then make such revision of the work as it deems proper in order to correct what, in its opinion, are errors of judgment and to bring the whole system to a common standard. Which of the two methods is preferable will probably depend upon the particular conditions obtaining. In all cases, moreover, it is probably desirable that an opportunity should be given to employees who believe that they have not received proper treatment to be heard in their own behalf.

In some cases when the reclassification inquiry has been conducted by a specially created committee or commission, it is not found practicable to continue the life of this body for this purpose. Where this condition obtains the work of installation should be entrusted to an existing permanent agency. For this purpose the most logical choice is the Civil Service Commission, since that is the body which has general responsibility in respect to matters of general personnel administration and presumably will have direct supervision over the operation of the new system after it is put into force.

**Administration of Classification System.** With a classification system devised and installed there is presented the problem of its administration. Reference is here made, not to the current use of the system as a basis for the recruitment of employees, the making of promotions, and the handling of other personnel matters, but to the keeping of the system itself to date. One of the prime requisites of the system is that it shall have flexibility; that is, that the provisions of law or regulations governing its use shall provide the means through which it may be currently revised to meet new or changing conditions. The necessity for such changes arises from two major causes: fundamental changes in the cost of living or other conditions that make it desirable that the whole schedule of compensation shall be modified; and special changes affecting particular positions. Among the latter the most important are those due to the adoption of new mechanical devices which may alter the whole character of important classes of work, and entrance of the government into new lines of work calling for the employment of a technical personnel that may not be provided for by the classification as first adopted. Finally, it is to be recognized that it is impossible in the case of such a complicated undertaking as that of devising a classification to reach perfection at the start. It is certain that the system as first devised will develop defects as soon as the attempt is made to put it into practical operation.

It is to be presumed that the adoption of the system will be brought about by legislative act. To avoid the necessity for constantly resorting to the legislative branch for further action, the act establishing the system should vest authority in some administrative agency to make the changes required in order to eliminate defects and take account of new conditions. As one of the leading experts<sup>7</sup> in this branch of administration has expressed it in an unpublished manuscript to which the present author has had access, "Unless the classification and the salary scales are progressively modified and unless some central administrative agency is exercising a continuous supervision to secure uniformity in application, the tendency will be for the government to lapse into something approaching its present condition with gross inequalities in payment for like services and with no close relation between compensation and value of service."

In general, there can be little doubt that the agency that should be made use of for this work of current revision is the Civil Service Commission. In the case of the national government, considerable difference of opinion developed in respect to this point, as to whether this duty should be entrusted to the Civil Service Commission, the Bureau of the Budget, or the Bureau of Efficiency. The outcome of this difference was a compromise, the reclassification act providing that the elaboration and installation of the system should be entrusted to a specially created Personnel Classification Board, composed of the head or a representative of each of these three agencies. This provision, like most compromises, has worked badly in practice. There is, consequently, a strong demand that this provision be repealed and the work entrusted to the Civil Service Commission. It is much to be hoped this action will be taken.

**Movement for Classification and Standardization of Public Personnel in the United States.** In view of the importance of this work of personnel classification and standardization, it is a matter of congratulation that the need is now generally recognized by students of public administration and that substantial progress is being made. To Chicago belongs the credit of the inauguration of the movement in the United States. The Civil Service Commission of that city, after calling attention in various of its annual reports to the need of a scientific determination of the compensation of public employees, received the authority and in the year 1909-1912 succeeded in working out and having installed the first satisfactory system of classifying and standardizing the personnel of a governing body in the United States. This work immediately attracted widespread attention, and similar efforts were made by a large number

<sup>7</sup>Lewis Meriam, Statistician, Congressional Joint Commission, now a member of the staff, Institute for Government Research.

of other public bodies. The best brief statement of the movement thus inaugurated is given by Mr. Telford, in his article "The Classification and Salary Standardization Movement in the Public Service," and we cannot do better than reproduce his summary.<sup>8</sup> After describing the work of the Chicago Civil Service Commission, he says.

In practice, the duties, classification and the salary standardization in the City of Chicago proved to be very successful. Quite naturally the essentials were quickly copied in nearby jurisdictions. By the end of 1911, similar plans had been worked out and put into effect in Cook County (in which Chicago is located), in the West Park, Lincoln Park, and South Park systems (all in Chicago), and in the State of Illinois. By 1915 the idea had reached the Pacific coast, as was evidenced by the development and adoption of classification and compensation plans in the City of Oakland and in Los Angeles County. In the same year, Pittsburgh in the east saw the light, while by 1916 large and extensive studies of this kind had been undertaken, carried through, and reported upon for New York City and New York State, though in neither of the last two jurisdictions were the plans recommended formally adopted and fully put into effect.

Towards the end of the war, employment and economic conditions were such as to give a great impetus to the whole classification and salary standardization movement. The cost of living was going up by leaps and bounds and adjustments in the salary and wage scale in the public service became imperative. In a number of jurisdictions, the responsible authorities, who previously had been indifferent, perceived that the best way to handle the matter of adjusting compensation for employees in the public service was to work out a sound compensation plan and to make salary and wage adjustments in a scientific manner instead of allowing horizontal increases which could only result in perpetuating and even accentuating existing inequalities. Among these jurisdictions where studies were made were the State of Ohio (1917), the City of Milwaukee (1917), the City of Cleveland (1917), the City of New Jersey (1918), the County of Milwaukee (1918), the City of St. Louis (1918), the State of Massachusetts (1918), the Dominion of Canada (1919), and the Government of the United States (1919). In all of these, except the Government of the United States, classification and compensation plans were adopted for all or large parts of the service.

<sup>8</sup>Annals, May, 1924.



Even after the compelling motive of war-time and post-war conditions was removed, the movement continued. Among the jurisdictions that have recently given attention to classification and salary standardization matter are: the City of Baltimore; the State of Maryland; numerous cities and counties in New Jersey; the State of Pennsylvania; the City of Cincinnati; the State of California; the City of Los Angeles; the City of Fresno; the City of Buffalo; the State of New York; the City of Philadelphia; the City of Montreal; the province of Ontario, the City of Detroit and the State of Colorado.

At the present time, it can fairly be stated that there is no large jurisdiction in the United States which handles employment matters through a central agency that is without a duties classification for large portions of the service; in addition, at any given time some half dozen jurisdictions are engaged in making their classification of the service more effective through studies and investigations or are considering the development of new plans.

To the foregoing may be added the extremely important work done by the Congressional Joint Commission on Reclassification of Salaries, which reported in 1920, which led to the passage of the Classification Act of 1923 and the reclassification of federal employees upon a large scale.

## CHAPTER XVIII

### RECRUITMENT OF PERSONNEL

In the three chapters immediately preceding we have dealt with what may be termed the structural character of a proper personnel system. We now pass to a consideration of features of the personnel problem having more directly to do with the operation of this system.

**Analysis of the Problem.** In the practical operation of a personnel system the first step is that of the procurement, or, to use a more technical term, the recruitment of the employees needed. This feature comprehends a number of elements which, for purposes of consideration at least, may be distinguished as follows:

1. Location of the appointing power.
2. Recruitment from within versus recruitment from without.
3. Qualifications required of public officers and employees.
4. Methods of determining qualifications.
5. Administrative machinery for determination of qualifications.

The nature of the problems presented in respect to each of these elements can best be set forth by indicating the alternative lines of action and between which a choice must be made.

**Location of the Appointing Power.** The determination of the authority in whom shall be vested the selection of public officials constitutes one of the most essential features not only of a personnel system, but also of the political system generally. The location of this power is determined, in broad lines at least, in the constitution of all states.

The first decision to be made in respect to the selection of personnel is the extent to which the selection of public officials shall be vested directly in the hands of the people and exercised through some elective process, or shall be entrusted to some officer or organ of the government proper. The issue that is presented is not wholly one of efficiency in the sense of securing a technically competent corps of officials. The primary consideration is, rather, one of political control.

In respect to this issue, two schools of political thought may be distinguished. One holds that real democracy, that is, a real direction and control over the conduct of public affairs, can only be secured where all important officers of government are selected directly by the people through the use of the ballot. Coupled with

this is usually the belief that terms of office should be short or that the commission of officers may be withdrawn by the voters through the use of the device known as the "recall." The other holds that, whatever may be the theoretical advantages of this system, in practice it can only work badly; that, in fact, the people are incompetent to make a wise choice where any considerable number of officials have to be selected; that experience has shown that in making their choice they will be influenced by personal and other considerations which should have no weight; and that only a comparatively few positions, in the administrative branch of government at least, are, of a character requiring such an exercise of discretion or policy-determining decisions as make it desirable that their incumbents should be subject to political as distinguished from legal or administrative control. This school, therefore, holds that only the comparatively few officers, such as members of the legislature and the chief executive, whose functions are clearly political and policy-determining, should be selected directly by the people through the ballot, and that all other officers should be selected by them through the process of appointment. It is evident that these two schools represent adherence to the two schools of political thought which have as their ideals democratic and representative government, respectively.

It would be out of place to attempt any consideration here of the relative merits of these two types of government. It is proper, however, to point out certain fundamental considerations which are involved in this issue, particularly as they have a bearing upon the question under consideration. The first is that the arguments in favour of the democratic type are stronger, the smaller the unit of government and the more directly its operations touch the ordinary life of the people; while they become progressively weaker, the larger the government and the more remotely or indirectly its operations concern the people in their ordinary life. The democratic principle under which voters select directly by ballot their chief officers is, thus, far more applicable to local government than to a state or the national government.

Secondly, a clear distinction should be made between those officers whose functions are of a political character, that is, having to do with the formulation of policies, and the exercise of executive, as distinguished from administrative, powers and those whose duties are purely of an administrative character. In any government of a popular type it is quite proper that those falling in the first class should be selected by the people by ballot. There is no argument in favour of the selection of those falling in the second class by this method. From the very nature of their duties these offices should be administered, not only in a non-partisan manner, but free

from outside political or personal control. In large part the duties are of technical or special character, calling for previous training or experience for their performance. These considerations can only be met when the officers are specially selected through the process of appointment, with a view to their qualification for the posts to which they are to be appointed, and when they have independence of outside influence combined with permanency of tenure and when they can depend upon a system of promotion based upon merit shown in the performance of official duties.

Finally, it should be noted that the power to select and dismiss officers constitutes but one method of control. Other equally and, under certain conditions, more efficient means exist in the power that citizens have to appeal to the courts to secure indemnification for damages caused them through misuse of administrative powers, to restrain officers from exceeding their powers or to compel them to comply with their legal duties; in the requirement that officers shall keep proper records of all their official acts and render such reports as will give proper publicity to all such acts.

In respect to this issue, the United States has gone through three phases. At the outset our governments, federal and state, were established upon distinctly the representative basis. This was followed by a period of Jacksonian democracy, in which the attempt was made to give to these governments a more democratic character in the sense of greatly enlarging the direct participation of the people in the conduct of governmental affairs. Two phases of this movement were the establishment of the spoils system and the carrying to an extreme limit of the system of having officers of government, even those of a purely non-political and administrative character, selected by ballot. At the present time we are in the midst of period in which the political and administrative evils of this system have become so apparent that there is a strong movement to revert more or less to early conditions. This finds expression in the movement for civil service reform, and, as regards the particular matter under consideration, for the establishment to what is known as the "Short Ballot," that is, to a system where only officers whose duties are distinctly of a representative or political character are selected by means of the ballot and all other officers are selected by appointment.

With the objects sought by these movements the writer is in thorough accord. He considers their accomplishment as vital if thoroughly efficient personnel systems are to be secured by our governments. It is fortunate that this condition obtains in the case of the national government where the only elective officers are those of members of Congress, the President, and the Vice-President.

Much remains to be done, however, to bring our state and local governments to this basis.

Having reached a decision regarding the extent to which public officials shall hold office by election or by appointment, the problem is then presented of determining the organ or officer in whom shall be vested the appointment of the officials to be selected in this manner. The principle of the separation of powers, rigidly construed, carries with it the implication that each of the three great branches of government should have the selection of their officers and employees. In the United States this principle, however, is violated through the requirement that the designation of many of the more important executive or administrative officers by the chief executive does not become effective until approved by the upper branch of the legislature. The Constitution of the United States, thus provides that the President "shall nominate and by and with the advice and consent of the Senate, shall appoint ambassadors, other public ministers and consuls, judges of the supreme court, and all other officers of the United States, whose appointments are not herein otherwise provided for, and which shall be established by law; but the Congress may by law vest the appointment of such inferior officers as they think proper in the President alone, in the courts of law or in the heads of departments, The President shall have power to fill up all vacancies that may happen during the recess of the Senate, by granting commissions which shall expire at the end of their next session."

It will be seen that this provision makes a distinction between the act of nomination and that of appointment of officers. The former is performed by the President, the latter, in the case mentioned, jointly by the President and the Senate. In point of fact, however, the Senate has so stretched its powers as practically to usurp, in all but a relatively few cases, the nomination as well as the confirmation of appointees. It has, as is well known, gone further than this and, in effect, allotted the selection of appointees to the individual senators for the states in which the offices to be filled are located. It has done so by establishing the convention that no nomination of the President will be approved to which the Senator of the state in which the office to be filled is located declares that he is opposed. It is an ordinary occurrence to read in the papers that such and such a nomination has been rejected by the Senate because the Senator interested has stated that such nomination was personally objectionable to him. To avoid this, the custom or convention has developed of the President's conferring with the Senators before making the nominations in order to assure himself that the men he has in mind for nomination will be acceptable. Or, going further than this, he has turned over the selection of nominees to field positions to the Senators, with the result that in

practice the nomination of candidates has been transferred from his hands to theirs, though he still retains the negative power of rejecting names proposed to him by Senators and of asking them to make new selections.

In like manner, though not based upon any constitutional or statutory provisions such as exist in the case of the positions we have been considering, the convention has developed of the President's consulting with members of the lower house and leaders of the political organization to which the President belongs, in respect to the nomination of persons for certain classes of offices. Here, too, this practice has gone to the extent of vesting to a considerable extent in the hands of these persons the actual selection in the first place of the persons to be appointed. There has, thus, arisen the system known as "political patronage" since this privilege of selecting persons for nomination by the President is only enjoyed by members of Congress and officers of the party organizations belonging to the same party as that of the President.

It is hardly necessary to point out how completely this practice subverts the intention of the Constitution and does violence to the principle of separation of powers. Nor is it necessary to debate upon the evils that have resulted from it. Originally intended merely as a check upon the arbitrary and possible misuse of power by the President, the provision requiring, or making possible the establishment by law of the requirement, that important appointments shall only be made with the approval of the Senate, has been distorted so as to destroy or seriously curtail the legitimate power of the President to select administrative officers and to bring into existence a highly developed spoils system.

The remedy for this situation lies along several lines: the development in the community of a public opinion that will not sanction this abuse; the display by Presidents of greater determination in resisting the demands of Senators, Members of Congress, and political leaders; the reduction to a minimum of the cases in which nominations by the President require the approval of the Senate; a like reduction in the cases in which appointments are made by the President by vesting the appointment of subordinate officers in the hands of departments and bureaus; and the extension of the system under which selections for appointment are made through examinations and other means for determining the technical qualifications of candidates.

The importance of taking the action above outlined in order to secure an efficient personnel is such that the late President's Commission on Economy and Efficiency, made it the subject of a special report, which report was transmitted by President Taft to

Congress with his approval.<sup>1</sup> In this report the commission summarized in compact form its recommendations regarding the specific action that should be taken. The importance of these recommendations, going as they do to the very roots of the system that should prevail in respect of the selecting power, warrants their reproduction in full. They read as follows:

The Commission recommends:

1. That it be provided by law that all assistant secretaries of the executive departments, now appointed by the President by and with the advice and consent of the Senate, shall be appointed by the President alone.

2. That if the foregoing recommendation is adopted one of the assistant secretaries in each department to whom shall be given the duties of an under secretary or general business manager, shall be placed in the competitive classified service.

3. That it be provided by law that all heads and assistant heads of bureaus and offices in the executive departments, who are now appointed by the President by and with the advice and consent of the Senate, shall be appointed by the President alone.

4. That if the foregoing recommendation is adopted the positions of heads and assistant heads of bureaus be placed in the competitive classified service and that the President in respect to such bureaus cause to be embodied in regulations the special qualifications that must be possessed by persons in order to be eligible for appointment to such positions.

5. That it be provided by law that all officers in the executive at civil service Washington, who are now appointed by the President by and with the advice and consent of the Senate, excepting assistant secretaries of executive departments and heads of bureaus and offices in the executive departments, shall be appointed by the head of department or other government establishment to which they are attached.

6. That it be provided by law that all local officers under any of the executive departments (such as customs officers, internal-revenue officers, postmasters, marshals, supervising inspectors in the Steamboat-Inspection Service, commissioners of immigration, registers and receivers of

<sup>1</sup> "Methods of Appointment," Message of the President of the United States Transmitting Reports of the Commission on Economy and Efficiency, April 4, 1912, 62 Cong., H. doc. 670.

district land officers, surveyors general, pension agents, etc.), who are now appointed by the President by and with the advice and consent of the Senate, be appointed by the President alone.

7. That if the foregoing recommendation is adopted, such positions be placed in the competitive classified service and that the President in respect to each class of such positions cause to be embodied in regulations the special qualifications that must be possessed by persons in order to be eligible for appointment to such positions,

8. That all acts of Congress which prescribe a fixed term of a given number of years for any officers in the executive civil service of the government at Washington or in the field be repealed.

Finally the commission has in this report called attention to the powers possessed by the President, under section 1753 of the Revised Statutes to provide qualifications for entrance into the civil service of the United States and suggests that these powers, which have already been exercised in the case of consuls, be exercised as well in the case of other officers now appointed by the President by and with the advice and consent of the Senate, who are now appointed without any formal examination of their qualifications.

Space does not permit of any extended discussion of the arguments that can be brought forward in support of these recommendations. A few words should, however, be said regarding one or two points. The first is that these changes, if made, would result not only in a more efficient personnel but would also bring with them many incidental benefits. They would bring about a great purification of our political life, relieve Members of Congress of the task of seeking to secure positions for their constituents, thus permitting them to devote their time and attention more largely to their legislative duties, strictly speaking, and, in like manner, shift from the shoulders of the President the burden of selecting men for subordinate positions which now makes such a great draft upon his time and energies, while at the same time making more definite his responsibility for the selection of those important officers, the appointment of which should remain in his hands. Desirable under any conditions, this change is especially desirable in view of the passage of the Budget and Accounting Act, 1921, which enlarges so greatly the responsibilities of the President as the real directing head of the administrative branch of the government.

Secondly, these recommendations, though all calling for action that would represent a great improvement over existing conditions,



do not go as far in the way of vesting the appointing power in the hands of the officials directly responsible for the work of the appointees as, in the opinion of the writer, is desirable. It will be observed that they still leave in the hands of the President the appointment of the thousands of officers placed in charge of the offices in the field establishments of the several services of the government as well as many other offices of intermediate rank at Washington. This, it is believed, is a mistake. The correct principle, as regards the location of the appointing power, is that the officer having immediate direction of the appointee should be responsible for his appointment.

Under this principle, rigidly construed, the appointing power of the President as regards the administrative branch would be restricted to "ambassadors, other public ministers, and consuls," the appointment of whom is vested in him by the Constitution, the heads of executive departments and the members of the various independent boards and commissions. Assistant secretaries and chiefs of the bureaus and divisions constituting the primary units of organization of the departments would be selected by the department heads, while all other appointments would be made by the bureau and division chiefs or their immediate subordinates. That this is a logical distribution of the appointing power, is evident, since it is difficult to hold an officer responsible for the conduct of the work of an organization if he is not to have a substantial voice in the selection of his chief assistants. Such a distribution, moreover, has the added advantage of relieving higher officials from much of the burden of passing upon the relative qualifications of applicants for positions. Under present conditions this work makes a great draft upon the time and energy of these officers. The close relationship between this question of the location of the appointing power and the extension of the merit system, as has been advocated to all administrative positions that do not have a political character or call for peculiarly close, personal, and confidential relations, is evident. If such an extension is effected, it would follow almost as a matter of course that the appointing power should be located as here recommended.

The following observations of Mr. Mayers, in his work dealing with the federal personnel system regarding this question are of interest as showing conditions in the national government and the manner in which this matter of the location of the appointment power should be handled. After commenting upon the appointment powers of the President, he says:<sup>2</sup>

<sup>2</sup>Lewis Mayers, *The Federal Service: A Study of the System of Personnel Administration of the United States Government*. Institute for Government Research, Studies in Administration, 1921, pp. 151-153

As to "employees and agents," it is the general rule that such persons, unless the statute providing for their employment otherwise directs, shall be appointed by the heads of departments. With respect to some of the field employees, including even some who might be regarded as "officers" (for example, deputy marshals, deputy collectors of internal revenue, etc.), the statute has provided that appointment shall be by the local chief officer, but again certain field employees are by law to be appointed by the head of the bureau in Washington.

The net effect of the scheme of distribution of the appointing power just outlined may be illustrated by applying it to a single typical service as, for example, the Internal Revenue Service, which is a bureau of the Treasury. The Commissioner of Internal Revenue is appointed by the President with the advice and consent of the Senate. His subordinates at Washington from highest to lowest are appointed by the Secretary of the Treasury. Passing to the field establishments of the service, the collector in charge of each collection district is appointed by the President with the consent of the Senate; while the subordinate personnel, the deputy collectors, clerks, etc., are appointed in part by the commissioner at Washington, and in part by the collector.

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In the interests not merely of administrative simplicity and decentralization, but of reinforcing the merit principle, it is desirable that, in every case in which appointment by the head of the department (and the power over other personnel matters which usually go with appointment) is not required by the Constitution, it should be vested in the bureau chief.

Consistency would seem to demand that the appointment of all subordinate personnel in the local offices should be vested in the hands of the chief of those local offices. Two considerations, however, must be kept in mind in this connection. In the first place, almost all the chiefs of local offices are at the present time purely political appointees of a type peculiarly subject to improper partisan and personal influences. For this reason it may be best at present not to allow them to exercise, uncontrolled by Washington the power of appointment of their local subordinates. Another factor is that in not a few of the services the local personnel is regarded as eligible for transfer from one locality to another and this is a practice which on all accounts should

be encouraged and strengthened. Where this is the case the local personnel is to that extent not merely local but a part of the personnel of the entire service and the discretion of the local officer in the control of this personnel, therefore, may properly be subject to central review. In the light of these considerations, the present practice in retaining the appointment of certain classes of local employees in the hands of the head of the service, at Washington, though the initial selection remains with the local officer, seems well advised.

**Recruitment from Within versus Recruitment from Without.** Scarcely second in importance, as determining the fundamental character of the recruitment system of a government, to that of the location of its appointing power, is the extent to which this system is based on the principle of filling all superior positions except those having a political or semi-political character, or which are of a peculiarly close confidential or personal character, by promotion from below instead of by original appointment of persons not holding office. This principle, which is sometimes designated as that of recruitment from within in contrast with that of recruitment from without, is one the importance of which cannot be exaggerated. As the author of what is undoubtedly the most thorough study of the personnel system of the national government, or, for that matter, of the personnel system of any government, has expressed it:<sup>3</sup>

Methods of selection are basically two in number—selection from without the service, or recruitment, and selection from within the service, embracing reassignment and promotion. The problem goes, however, much deeper than the mere technical choice between detailed methods. It goes to the nature of the whole personnel system. Upon its answer, as much as upon any other factor, and perhaps more, depends the attractiveness of the service, the ultimate calibre of the personnel recruited and retained and its moral. If compensation standards be regarded as the foundation of the personnel system, the lines of promotion and the levels of recruitment constitute its framework.

In the work from which the foregoing was taken, the author devotes an entire chapter of eighty-two pages to a consideration of the relative merits of these two systems as applied to the national government of the United States and the conditions under which one or the other of the two should be and are applied. What is here given is almost wholly based on that chapter, and when the author is not directly quoted his discussion is paraphrased.

<sup>3</sup>*Ibid.*, p. 215.

The position taken by this author, in which the present writer fully concurs, is that the principle of recruitment from within, that is, by promotion, is the one that should be adopted in all cases where it can possibly be applied. The arguments in favour of this position, as well as those which can be brought against it, are so effectively and fairly stated that we feel justified in quoting at some length. He thus says:<sup>4</sup>

The obvious reason why the restriction of selection to those in the service may be urged as a matter of principle is that it increases the opportunity for advancement within the service, and still more, that it gives those in the service a definite assurance that under given conditions advancement will come. The anticipated results in terms of a better class of personnel recruited and retained in the lower ranks, and a better morale, are obvious. Great as is the desirability, in any personnel system, of multiplying and widening the avenues for advancement to the greatest extent possible, it is especially necessary in the personnel system of governments where at best the opportunities for advancement are not apt to be as great as in private undertakings.

Almost as important as the frequency and adequacy opportunity for advancement is its certainty. It is in the highest degree desirable, in a well-established service, that the personnel should have a definite assurance that, unless an extraordinary reason compels a resort to outside selection, vacancies in the higher grades will be filled from within the service. Such an assurance, by making definite the vague expectation of promotion as a reward for faithful and zealous service, is of immeasurable value for working morale.

Closely allied to this, but worth mentioning specially because so often overlooked, is the fact, already alluded to in the preceding chapter, that if advancement is certain, compensation rates, especially in the lower positions, may be kept at a lower level than otherwise without hardship, since pressure will not be present in so great a degree to increase the compensation of employees of long service who have been unable to secure advancement.

The obvious objection to a consistent restriction of selection to those already in the service is that it so severely narrows the area of selection. This is particularly applicable to the higher posts, since at this level first rate ability is in any case rare and hard to find. Unquestionably

<sup>4</sup>*Ibid.*, pp. 216-19.

where the restriction of selection for the highest posts to those already in the service is in force, it not infrequently results in the selection of a less capable or brilliant officer than could have been found outside the service. But against the resulting loss of individual efficiency is to be set the increased efficiency, due to better morale and greater incentive, displayed by the rank and file of the service, and the intermediate officers. The knowledge that the highest posts may be the reward of faithful and zealous service is a force making for a day-to-day productiveness often far more valuable than any results that may be achieved by the chief executives, however able, with a force but mildly interested in its work.

Again, it is arguable that, regardless of the relative efficiency of the personnel which may be recruited from without the service as against that which may be promoted from within, adherence to selection solely from within the service leads to stagnation and conservatism; that frequent or at any rate, occasional, injection of new blood into a system, particularly at or near the top, is highly desirable.

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Without in any degree depreciating the force of this contention, it should always be borne in mind that the occasional injection of directing personnel from without represents a merely sporadic attempt to cure a condition which is capable of prevention. Where a proper incentive to efficiency and to progress exists throughout a service, and central control and supervision as will expose, by periodic survey and appraisal, as well as by current contact, unprogressiveness or incapacity of the directing personnel as soon as it appears, it is perfectly possible to prevent stagnation at the top from developing; and only occasionally will conditions get to a point where there is imperative need of regeneration by one unfettered by any previous familiarity with the organization. In this view, to the extent that stagnation exists at the top in the federal service it is chargeable to an improper system of administration in the large, and should be corrected by a revision of that system rather than by attempting, at irregular and accidental intervals, to galvanize the sluggish organism into action. Nor should the fact be lost sight of that the stagnation of the subordinate personnel, which results from the lack of opportunity for advancement, is no less hurtful to efficiency than is stagnation in higher quarters.

By way of comment on the foregoing, it is desired to emphasize four points. The first is that, viewing the question of recruitment

as a whole, rather than as it presents itself in particular cases, the probability of securing efficient employees for superior positions through this method is greater than when a system of examinations open to all is followed. The second is that this method of selection tends to meet one of the strongest objections that have been urged against the system of selecting government appointees through the examination method. Opponents of civil service reform have strenuously insisted that no system of examinations can discover the purely personal qualifications of applicants which determine to so great an extent their real working capacities. This criticism is fully met by the system of recruitment from within, since here controlling weight can be given to the factor of experience, the manner in which past duties have been performed, and the judgment of those who have had direct charge of the employees considered for promotion to the position to be filled. Thirdly, is the fact that the relative merits of the two systems must be considered from the standpoint of the efficiency of the government service as a whole rather than of the individual cases to be acted upon. Viewed from this point there can be question as to the superiority of the recruitment-from-within system. This point has been so clearly brought out in the passage quoted that it need not be further dwelt upon. Finally, it should be noted that this system simplifies greatly the whole problem of recruitment by restricting the work of examining new applicants to those needed for the filling of subordinate positions and by lessening the pressure for entrance into the government service.

In the operation of this system there is a number of variations in both principle and procedure. Among these are: the extent to which the selection of employees for advancement shall be restricted to those in the service in which the vacancy exists, or shall be open to all employees no matter where employed or work engaged upon; and the extent to which the filling of positions by promotion shall be governed by formal rules and regulations setting forth the weight to be given to length of service, efficiency records, results of special examinations, etc., or large freedom of choice be given to the appointing power to exercise his own personal judgment. These are matters which will have to be handled according to the varying conditions presented by the several services and classes of positions. Their consideration finds a more appropriate place in the subsequent chapter dealing specially with the promotion of personnel."<sup>6</sup>

<sup>6</sup>For a full account of the extent to which the system of recruitment from within is now followed by the national government and the provisions that should be made for its further employment, see chapter on "Selection by Promotion from Within versus Recruitment from Without," in *ibid.*, pp. 215-97.

It is of interest to note that in at least one important service of the national government—the Postal Service—this principle of recruitment from within is now rigidly employed. Regarding conditions in this service, Mr. Mayers says:<sup>6</sup>

By tradition the postal service has but a single level of recruitment—the lowest. Aside from the postmasters of the first, second, and third class offices, who were, until recently all political appointees, and aside from the chief positions in the department at Washington, all postal officers enter the service as clerks or carriers. Curiously enough, in his order of March 4, 1917, establishing the system of competitive selection for presidential postmasters, President Wilson gave no recognition whatever to the principle of selection from within; establishing instead a system of open competitive examination. No reason has been given officially for the adoption of the open competitive rather than the *promotional method for these posts*. The position of assistant postmaster, a position which is in the larger cities far more difficult and responsible than that of postmaster in the great majority of post offices, has now for some years been filled by promotion from within the service; and the important and responsible position of division superintendent of railway mail is likewise so filled. The recognition of this principle in the selection of postmasters thus would not have involved, except in the case of the larger cities, any real raising of the level to which competitive employees might rise. So long as the four-year tenure remains in force, it would be difficult, of course, to secure the whole-hearted competition of many of the most capable of the permanent employees; for some would hesitate to take the chance of being dropped at the expiration of the statutory term. The same difficulty is present, however, in securing the competition of the best qualified persons outside the service. The President, therefore, pending the enactment of legislation placing all postmasterships in the non-presidential class, with indefinite tenure (thus making them a part of the classified competitive service), should convert the present system of open competition for postmasterships to one of promotion.

**Qualifications Required of Public Officers and Employees.** In considering this matter of the appointing power it is of importance to note that it does not necessarily carry with it full freedom of choice, as to who will be selected for appointment. The field of choice, indeed may, and in most cases should, be confined within narrow boundaries. The restrictions constituting these

<sup>6</sup>*Ibid.*, p. 229.

boundaries have for their purpose to ensure that appointees will possess those qualifications which it is believed they should have in order properly to discharge the duties of their offices. A study of those which it has been found desirable to prescribe shows that they may be classified under two heads to which for purposes of description will be given the names of general and special.

The general qualifications embrace such factors or elements as civil status, that is citizenship, domicile, or residence; sex; and age.

The special qualifications cover such matters as personal qualities, education, experience or length of service, and technical knowledge or skill.

It is evident that there is room for a wide range of choice in respect to each of these factors. It would seem to be a reasonable provision that all employees of a government should owe allegiance to, that is, be citizens of such government. In point of fact, this qualification has not been rigidly required in the United States. In the past there have been many cases where aliens have been admitted to the service of our national, state, and local governments. It is true that in the case of the national government at least, all employees are required to take what is known as an oath of office, that is, take oath that they will not only faithfully perform the duties of their offices, but also pay full faith and allegiance to the government and support and defend the Constitution of the United States. This oath, however, does not change the civil status of the employee subscribing to it and only establishes what may be termed a qualified or special status of allegiance to the government. The conditions accompanying the World War raises very distinctly the question whether these provisions permitting of the employment of aliens, or persons who have not completed their nationalization as citizens of the United States, are satisfactory; whether, in a word, full citizenship should not be made one of the essential qualifications to be demanded of most classes of employees.

The question of domicile arises in a different form in the case of the national government and in that of the state and local governments. In the latter it presents the issue as to whether the right to become government employees shall be confined to persons who are *bona fide* residents of the state, or local districts concerned or shall be enjoyed by all persons irrespective of their domicile. There is some justice in the demand that the former requirement shall obtain as a general rule. There are many cases, however, where exceptions to this rule should be made. This is especially so in the case of positions of a technical character. In the chapter on the government service as a career, we have shown that if positions,



such as those of city manager, city engineer, city health officer, and superintendent of schools, are to be made ones offering a permanent career to their incumbents, the practice must extend where such officials are called from one government to another. Manifestly, any requirement that employees of this character should be citizens or even domiciled at the time of their appointment in the state or city to whose service they are to be appointed, would defeat this very desirable end.

In the national government this question of residence or domicile, unfortunately, plays an important part in the personnel system. In the first place, practically all positions outside of the seat of government, such as postmasters, collectors of customs, collectors of internal revenue, etc., are treated from the standpoint of the recruitment of their personnel almost as if they were local offices. Though the law may not require it, the convention or practice is firmly established that these offices shall be filled from persons residing in the state, if not in the political districts in which the offices are located. It has been pointed out in the consideration of the government service as a career, how destructive this system is to any attempt to make career, of these services. From every standpoint of efficiency they should be treated upon a national basis. The positions should be graded according to their importance and vacancies should be filled by promotion. If any weight at all is given to the matter of residence it should apply only to persons entering the service at the bottom.

It is bad enough to have this factor of residence given controlling weight in the case of field stations. It is, if possible, even worse when the attempt is made to make it apply to positions at Washington. In the case of these positions the law has been framed with a view to assuring as even a distribution of appointments among the several states in proportion to their population as it is practicable to secure. This is secured by the co-called "apportionment" provisions of the civil service act. Under these provisions each state is given its quota, and as soon as that quota is filled no further appointments can be made from that state so long as the quotas of other states are not exhausted and appointees meeting other requirements can be secured.

The evils of this system are manifest. In the first place, it does violence to the merit system. Candidates having a high rating must be passed over in favour of those having a lower rating simply because the former hail from a state whose quota is full and the latter do not. In the second place, the rate of compensation offered to entrants have to be much higher than would otherwise be required, due to the cost to which appointees are put in coming to Washington from distant places in order to accept appointments.

In the third place, the work of recruitment is rendered much more complicated and expensive. Finally, it rests upon the fundamentally defective principle that public offices are in the nature of spoils in the distribution of which all sections of the country should be given a share. Only one who has had experience with this system as head of a service at Washington can appreciate its bad results, how often it prevents services from getting the most efficient employees, the delays that are at times entailed in filling vacancies, etc.

Little need to be said regarding the qualification of sex. It is not so many years ago, however, when this was a prime factor. It is within the memory of the writer when no women were employed in the government departments at Washington, and only gradually did they make their way into the service. Now they are firmly established in many of the clerical branches, and at least three bureaus have a woman as chief. One effect of the employment of women should be noted. This is the tendency that it has to mark off and segregate more definitely the clerical class. As a general rule women do not have the experience or other qualifications fitting them for the more responsible positions and particularly those coming within the class of directing personnel. The outcome will apparently be the establishment of a fairly definite permanent clerical class composed of women, few of whom will count upon leaving that class, and a class of superior clerks, technicians, and directing personnel composed almost wholly of men.

The age qualifications of entrants is a matter of great importance, since the policy adopted in respect to it affects vitally the whole character of the personnel system. This is best brought out by contrasting the British with the American practice in this respect. In England, as we have shown, a personnel system existed, though recently modified to a certain extent, resting upon the principle that all of its members, except those falling in the superior class, holding offices of a political character, entered the government service as a permanent vocation. The entrance requirements were accordingly framed to secure this end. Among these the most important was that candidates should be of youthful age, varying from 15 to 17 years in the case of boy clerks, and 22 to 24 in the case of first class clerks. As a consequence, the examinations were of a character calculated to determine general fitness rather than technical knowledge.<sup>7</sup>

In the United States the system, as has been pointed out, is almost the opposite of this. There is no attempt to make of the government service a career in this way. All of the entrance

<sup>7</sup>In recent years there has been an increasing tendency to recruit technical employees through special examinations.

requirements are, in fact, of a character to discourage the development of any such system. The upper age limit is fixed only with a view to excluding those who, as the result of their advanced age, are unable to do first class work. The examinations are of a character to determine technical qualifications rather than general educational attainments. It results from this combination that a premium is placed on securing persons no longer young, since it is difficult for young men and women just leaving school and having had no practical business experience, to compete with these older persons who have had these advantages.

From the foregoing it will be seen that the factor of age is a vital one in determining the nature of the personnel system and the character of examinations that shall be employed in determining the fitness of entrants. Or probably this should be stated the other way, that the nature of the system to be established determines the age and examination requirements. We have already pointed out how desirable it is that the personnel system of the governments shall be so recast as to make public service a career. In this we have had specially in mind the two classes of directing personnel and technical personnel. If steps in this direction are taken one essential change will be that of fixing the entrance age for such classes at a low figure. The purely clerical class offers a different problem. In view of the character of this work, the comparatively restricted range within which advancement in it may be secured, and in view of the further fact that this class tends more and more to be composed of women, it may be that the present system, composed of persons of more advanced age and already having had experience in clerical work, may be the more satisfactory one.

Turning now to the question of the special qualifications that will be required of entrants, we have to deal with a different set of considerations. These special qualifications, as has been pointed out, may be classified under the four heads: (1) Personal qualities, (2) education, (3) experience or length of service, and (4) technical knowledge or skill.

Of these four the first is at once the most important and the most difficult to determine in specific cases. By personal or moral character is meant not only such qualities as honesty, truthfulness, etc., but also the qualities of energy, resourcefulness, tact, persistence, reliability, executive ability, and even personal appearance and manner. It is hardly necessary to state that the value of an officer's or employee's services are, in many cases at least, as dependent upon the possession of these qualities as those of an educational or technical character. At the same time they are exceedingly difficult to determine by any artificial or mechanical

method, if the terms may be permitted, such as is represented by the use of questionnaires, examinations, or efficiency records. To this factor more than to anything else must be attributed the opposition which exists to the use of these methods in determining both the recruitment of personnel and the promotion of employees after they have entered the service. It is, consequently, one which will receive special attention when we consider the methods that are open for determining qualifications of candidates for entrance into the service and for making promotion of employees within the service. Here it need only be pointed out that in general the higher and more responsible the position to be filled, the more important both absolutely and relatively are these qualities. It follows, therefore, that the matter is not so important in determining entrance into the service as in determining promotion. This is particularly so where the service is organized as a career and employees enter at the bottom at an early age.

The other three classes of special qualifications that have been mentioned require little comment. By "education" is meant both the ordinary education that is acquired by students in general educational institutions and the special education imparted in professional schools. By "experience" is meant the training that candidates have received in the actual performance of work. By "technical attainments or skill" is meant the specialized abilities which candidates may have secured through these or other means.

Manifestly, there are qualifications the necessity for which will vary with the positions to be filled. In the case of work requiring medical knowledge the requirements may be that the candidate shall have received a degree from some recognized school of medicine, that he shall have had a certain experience in some hospital or in private practice, and that he shall possess a certain technical skill as demonstrated by some practical test. In the case of all such positions, it is therefore, desirable that these qualifications shall be carefully determined and set forth in regulations.

In considering this question of qualification, reference should again be made to the fundamental change that has taken place in recent years in the character of the personnel of modern governments. Formerly the work required of the great bulk of government employees was primarily of a clerical character. At the present time the work is in great part of a highly technical nature for the performance of which varied and specialized knowledge and skill are required. This change has greatly magnified the importance of ensuring, through the setting up of rigid requirements as to special qualifications, that appointees will have the necessary attainments to enable them to discharge efficiently the duties of

their positions. One of the great merits of a classification of positions, as described in a preceding chapter and as is now being worked out for a number of governments, is that it necessitates the careful determination of those special qualifications that appointees must have as a condition to their appointment.

**Methods of Determining Qualifications.** With the establishment of the practice of carefully specifying in advance the qualifications that must be possessed by incumbents of positions, the necessity arises for the provision of means for determining in specific cases whether these requirements are met. If at the same time the principle of making merit the dominant factor in determining appointments is adopted, the problem becomes one of determining relative as well as absolute qualifications.

Examination of this problem shows that the following methods of determining qualifications are open:

1. Personal judgment of appointing officer
2. Certificates of character, abilities, etc.
3. Record of previous experience
  1. Educational
  2. Occupational
4. Examinations
  1. Non-Competitive
  2. Competitive

The simplest method of recruitment of personnel is, of course, one by which the qualifications for entrance into the service are not rigidly prescribed, and the appointing officer depends upon his own personal judgment in making selections. This is a system which is not only feasible but can also give excellent results under certain conditions. These conditions are that the number of appointments to be made are so small that it is practicable for the appointing officer to give to the matter the time and attention that are required, that the appointing officer is not under undue pressure to make appointments for political or personal considerations, and that he, in fact, exercises his powers with reference solely to the good of the service that he is directing. These conditions obtain in most private undertakings which are conducted on a relatively small scale. The fact that the appointing power is directly interested in the results of the undertaking directed by him, or is in a position where the efficiency with which he discharges his duties can be readily determined through earnings or results realized, makes it extremely unlikely that his power of making appointments will be abused or exerted other than with regard to the success of the undertaking of which he has charge.

It needs but a moment's study of conditions as they exist in most governments to appreciate that these requirements are rarely present. Most services are of such a size that the attempt on the part of their heads to select appointees on their unaided responsibility would make too great a demand upon their energies and time. The heads of these services, moreover, are not directly interested in the financial results obtained and it is difficult to establish adequate means for determining the efficiency with which these services are conducted. Finally, unless they are protected by rigid regulations governing the selection of appointees, they are subject to political and personal pressure which it is exceedingly difficult, if not impossible, for them to resist. It follows from these and other considerations, which it is not necessary to enumerate here, that in all governments of any size, it is imperative, if an efficient personnel system is to be established, that reliance must be placed upon the other devices for determining entrance qualifications which we have mentioned.

At the same time, it is important to recognize that this factor of personal judgment should not be entirely eliminated. There are a certain number of positions where it should probably have controlling weight; such positions as private secretaries or other officers having a confidential or specially responsible character. This situation is met in most civil service systems by throwing these positions into a special exempt class, or by vesting authority in some superior officer to exempt appointments in particular cases from the general rules governing the selection of public employees. In respect to other positions this factor is recognized and given some weight through the provision that usually exists that the appointing power may make a selection from among three candidates who are certified for appointment by the recruiting board, or may reject all three and ask for the certification to him of three other names, and that appointments as first made shall be of a probationary character, thus giving an opportunity for the head of the service to determine, through the use of his own judgment, regarding the qualifications, moral as well as technical, of the appointees. It should be noted also that this factor can be given large weight in connection with the use of a system of examinations, provided such examinations are of a non-competitive character. Under this system examinations may be made as rigid as is desired from the standpoint of determining fitness for the positions to be filled and yet a wide range of personal discretion preserved to the appointing officer in selecting persons to take the examination and in refusing to appoint persons, notwithstanding the fact that they may have successfully passed the examination tests.

The value of the next two methods of determining qualifications, namely, securing certificates of character and abilities from responsible persons, especially those who have had the persons to whom they relate in their employment, and requiring records of previous experience, educational or occupational, is evident. It may almost be said that such certificates and records should be secured in all cases, and that a certain weight should be given to them in rating candidates.

Valuable as are the methods of determining fitness which we have been considering, they have their definite limitations. If the appointment of government employees is to be taken out of the field of arbitrary, personal selection, provision must be made for the subjection of candidates for most classes of positions to examinations so devised as best to determine the extent to which they have the special qualifications which it has been decided should be possessed by the occupants of the positions to be filled. The other methods just considered must, in fact, be looked upon merely as collateral or supplementary means for determining the applicant's fitness.

In considering this method it is important to recognize that two distinct ends are served. The first, of course, is that of determining the physical, mental, educational, and technical qualifications of candidates for employment. Much criticism often exists in regard to the character of the examinations that are given. This criticism, however, is not of the method itself, but merely of the manner in which it is employed. If properly devised it is difficult to see how the special qualifications of candidates can be accurately determined in any other way. The second end, which often is not properly the field of arbitrary, personal choice and of establishing a system appreciated, is that of removing the matter of appointments from under which the attempt is made to do justice to all persons. The moment that it is decided to do away with the regime where appointing officers can make appointments according to their own judgment and desires, it becomes necessary to set up some mechanical method of selection; that is, mechanical in the sense that it is not personal. In the case of the promotions in the lower grades of officers in the army and navy, this is secured by the adoption of the principle of promotion according to seniority in respect to service. Evidently, however, if the choice of means can be such as will at the same time determine, or tend to determine, fitness, such choice should be made. The use of the method of examination meets this consideration in the most effective way. It is of prime importance that this feature of the examination method should never be overlooked. Did examinations contribute little or nothing in the way of determining fitness, their use would still be justified as a means of abolishing

the spoils system in respect to appointments, of correspondingly purifying our political life, and of putting the whole system of appointments upon a basis of justice.

As indicated, two kinds of examinations may be employed in determining qualifications—the competitive and the non-competitive. The two may be identical in so far as the character of tests is concerned. They differ only in that, in the former, the provision is made that appointments will be made substantially in the order in which candidates successfully meet these tests, while in the latter, full freedom is left to the appointing power to make his selection from among any of the candidates who have passed the examination. Or, this option may be in the form of the appointing power using his discretion in determining who shall be permitted to take the examinations and thus contest for appointment. Or, finally, the examination may be of merely a pass character, that is, the appointment is made subject to the requirement that the appointee shall be able to pass the examination.

Manifestly, the effectiveness of the examination method in determining qualifications is dependent upon the skill with which it is employed. No one who has not had occasion to go into the matter can appreciate the difficulties that are involved in this matter. The first of these has to do with the determination of the scope and character of the examination employed. In respect to this it is important to note that the term "examinations" as employed by bodies, such as civil service commissions, having charge of the determination of qualifications of applicants for appointment to the government service, has a connotation far broader than that usually given to in academic circles or by the general public. It is used to cover all means employed in determining qualifications. It, thus, embraces the securing of data regarding the personal characteristics, service record, experience, etc., of applicants as well as information regarding their knowledge and abilities as determined by set tests or examinations, using that term in its restricted sense.

There can be little question that much of the opposition to the method of selecting public employees through what is known as civil service examinations is due to a failure to appreciate this fact. In popular opinion a civil service examination means little more than a formal written examination, such as is employed in schools and universities, and the criticism is constantly heard that fitness, absolute or relative, for other than the most subordinate positions cannot be determined by this method. The result of this feeling has been to restrict the employment of this method largely to such positions. For this feeling and result the civil service commissions of the country, as well as those most active in promoting so-called



civil service reform, are particularly to blame. As has been pointed out, the interest of civil service reformers at the outset was centred rather on the purification of our political life through the elimination of the spoils system than on perfecting a means for securing an efficient personnel. It is, moreover, certainly true that those reformers, and the civil service commissions that they succeeded in having established, at first laid too great stress upon the device of formal written examinations and failed to work out in a satisfactory manner the technical problems involved in framing the examination papers, in determining the relative weight that should be given to different classes of questions asked or tests set, and in subsequently rating the results. Within recent years great progress has been made in this direction. Not only has increasing weight been given to such factors as service records, experience, and personal attainments as revealed by academic degree, certificates of proficiency, and other data, but the technique of the written and oral examination paper and physical tests of ability and skill has been greatly perfected. With this progress has come a larger support of the method and its steady extension to the filling of higher and more technical positions.<sup>8</sup>

Before leaving this question of examination technique mention should be made of the fact that within recent years, the question has been raised of the desirability of making use of what are known as psychological tests in determining fitness. It is quite possible that in time effective use may be made of this method.<sup>9</sup>

Though it is believed that with the perfection of the examination system, especially in respect to the determination of the factors other than the formal written tests, use can be made of this method in determining fitness for most positions, there nevertheless remains certain cases where, if the examination system is used at all, it should be of a pass rather than a competitive character. There are certainly cases where the prime qualifications sought are as much such personal characteristics as general appearance, manner, tact, executive ability, energy, resourcefulness, etc., as technical knowledge and skill. It is well known, for example, that personal qualities of this kind go far in determining the efficiency of teachers as their educational qualifications. The same is true of many other positions where the duties are of a directing rather than an executing character. A leading example of the pass examination system is found in the recruiting of officers for the Foreign Service.

<sup>8</sup>For a brief but excellent discussion of the technical questions involved in formulating and rating examination papers, physical tests, and related questions, see Procter, *Principles of Personnel Administration*, Institute for Government Research, *Principles of Administration*, 1921.

<sup>9</sup>See recent annual reports of the United States Civil Service Commission for information as to developments in this field.

It is much to be doubted whether the use of a strictly competitive examination system would in this case give better results.

In respect to this whole matter the writer is inclined to believe that the tendency is to lay undue emphasis upon conditions governing entrance into the government service as contrasted with those governing employment conditions after entrance. With the adoption of a proper system of classification and compensation of employees, which will mean the discontinuance of the payment of salaries much higher than those paid in private life to persons just entering the service and performing the lower grades of work, the pressure for appointments will be much lessened. When persons enter the government service at the bottom and the superior positions are filled by promotions from the lower ranks in accordance with demonstrated merit, adequate opportunities will be given to the appointing power to use his personal judgment in selecting appointees to positions where the purely personal qualities which we have enumerated are of primary importance, and consequently the more general use of competitive examination will become both more desirable and more feasible. Finally, with the establishment of the principle of permanency of tenure, the number of original appointments is reduced to a minimum and the whole problem of determining conditions of entrance into the government service correspondingly simplified.

**Administrative Machinery for Determination of Qualifications.** The adoption of the principle of selecting employees on the basis of merit and of seeking to standardize employment conditions throughout the government service makes it imperative that the work involved in the determination of the qualifications of candidates for appointment shall be done by some body which, standing outside of the operating services, properly speaking, is in a position to act for them all. This body constitutes, in effect, one of the general supply services of the government, its function being to supply personnel upon requisition of the operating services in much the same way as an ordinary supply service provides material. In practice, most of the governments of the United States, national, state, and local, which have done anything in the way of rooting out the old spoils system have created civil service commissions to act in this capacity. Due to the fact that these bodies have in all cases been entrusted with other duties having to do with personnel matters, such for example as that of exercising a supervision and control over the operating services in respect to the observance by them of laws and regulations governing the selection, promotion transfer, etc., of employees, it is deemed best not to consider their organization and operations until a later point when all of their activities can be considered at the same time.

**Probation System.** However great the degree of care exercised by the recruiting agency in testing, selecting and certifying to the requisitioning service eligibles for appointment, there is always present the possibility that the person selected for appointment will not, upon trial, prove satisfactory. There is a very general agreement, therefore, that the personnel system of the government should make provision that appointments as first made should be of a provisional character during which the appointee will be upon probation. The period of probation should be definitely fixed and at the end of it the appointees will if satisfactory receive a permanent appointment or if unsatisfactory be dropped. As the Conference Committee on the Merit System points out in its report:<sup>10</sup>

The probation period should be considered as an opportunity for the appointing authority to complete the selecting process. No formal tests, however, well devised and however carefully conducted will prove infallible. The final test is actual performance. For this reason the new appointee should be carefully supervised and critical observation should be made of his work during the period of probation.

Though the desirability of this probation system from the standpoint of principle cannot be questioned it is only proper to state that its results in practice often fall short of what might be expected of it. This is due to the fact that administrative officers are inclined to administer it in a perfunctory manner. In the federal service, at least, there are few cases where a probationary appointment is not made permanent. This arises in part from the unwillingness of the appointing officer to drop an employee who has come a long distance in order to enter the service at Washington. To meet this situation, the Congressional Joint Commission on Reclassification of Salaries recommended that administrative officials should be required to submit to the Civil Service Commission such reports regarding the efficiency of probationary appointees as that commission might require and that no permanent appointment would be made except on certificate by the commission that the employee had satisfactorily passed his probationary period. Regarding this recommendation the commission said:

These precautions would force upon appointing officers careful inspection of the work of probationary appointees, and would safeguard the government from placing upon its rolls permanently those who had failed to show proper ability to do the work. By predicating permanent appointment on a decision instead of an omission, the probationary

<sup>10</sup>The Merit System in Government, p. 42.

period would become a really effective part of the examination, as it is evident the law intended it should be. It should not be overlooked that the merit system requires the exclusion of the unfit fully as much as the retention of the fit, and that the removal of the unfit during the probationary period works less hardship on them and is less costly to the government than demotion or dismissal after they have received permanent appointment.<sup>11</sup>

Under any circumstances, it is desirable, however, that provision, should be made for this feature. Did it do nothing more, it tends to meet the objection often raised by administrative officers that, under a system of recruitment of personnel through a central agency, they have forced upon them employees who do not meet their particular requirements.

<sup>11</sup>Report, Part I, p. 115.

## CHAPTER XIX

### PROMOTION OF PERSONNEL

Up to the present point we have concerned ourselves with those factors of the personnel problem having to do with the fundamental character of a proper personnel system and the principles that should govern in the securing of an efficient public personnel. We now pass to a consideration of the problems that are presented in handling a personnel after it is secured, to the end that the greatest return in the form of service rendered may be obtained.

Only one who has had practical experience in the handling of a large body of public servants can appreciate the many difficult questions that this branch of personnel administration presents. Stated generally, these questions have to do with the powers and obligations of the directing personnel; that is, power of those having direct charge of government services, to control their subordinate personnel; that is, to assign them to particular jobs or positions to transfer them from one position to another, or, if need be, from one service to another, to increase or decrease their compensation, to promote them to a higher position, to demote them to a lower position, to suspend them temporarily, and, finally, when circumstances warrant, to dismiss them.

**Importance of a Proper Promotion System.** Of these several features of the problem of handling personnel, that having to do with the promotion of employees from one position to another probably ranks first in importance. Certainly, it is difficult to exaggerate the extent to which the working out and operation of a proper system for handling this branch of personnel administration determines the efficiency of the personnel system as a whole. Such a system is of vital significance from two standpoints: the securing of the employees most competent to fill the several positions and the provision of that continuing incentive to good work on the part of the personnel without which no system can be efficient. As Mr. Procter has put it:<sup>1</sup>

To the employees promotion is of direct significance as a reward, or possible reward. Actual promotion is a reward, while the opportunity for promotion is a possible reward, something still in the future but nevertheless a matter of considerable significance. Finally, promotion is of direct significance to the management, inasmuch as the re-

<sup>1</sup>Procter, *Principles of Personnel Administration*, pp. 173-74.

wards given to employees and the incentive held out to them react in important ways on practically all of the phases of employment administration. The actual promotions given to employees tend to create a contented, stable and efficient personnel. The opportunities for promotion held out to employees have a similar effect. They operate as fundamental and far-reaching incentives. They affect the success with which suitable workers are originally recruited, they determine in large part the success with which employees are retained; they affect the efforts of employees in the direction of training and self-improvement; they affect the maintenance of proper discipline; they determine in large part the good-will and enthusiasm that prevail, and they determine in large part the standards of efficiency that are maintained.

Mr. Mayers puts this still more emphatically. He says:<sup>2</sup>

The devising of formal methods of selection for promotion which shall effectively pick out the best qualified is one of the most difficult problems in the whole field of personnel administration. The difficulties are far greater than those encountered in devising formal methods of recruitment; and the consequences of improper selection far more serious. If the methods of recruitment result in the selection of a less capable as against a more capable applicant, the fact is known, if at all, only to the few concerned in the work of recruitment. But if promotion methods fail, the fact is known to all the personnel affected, and, more surely and universally than any other defect in personnel methods, breeds discontent, diminution of incentive, and general impairment of morale. The necessity for not merely efficient but for highly accurate methods of selection is thus substantially more important in promotion than in recruitment; and from this it results that rigid or mechanical methods can be much less confidently and generally employed than in recruitment,

**General Failure of Existing Public Personnel Systems to Provide for a Proper Promotion System.** In few respects are the existing personnel systems of our governments more defective than in respect to this feature. Only in exceptional cases have they worked out and established a promotion system that makes any pretence of handling this branch of personnel administration in a satisfactory way. The result is that the government service is almost universally viewed as one offering little inducement to the

<sup>2</sup>Mayers, *The Federal Service*, p. 317.

ambitious to enter the service or for those in the service to do the best that is in their power, To quote Mr. Procter again:<sup>8</sup>

The fact that public employment does not hold out the prospect of promotion as the reward of faithful service and increased usefulness has a marked retroactive effect on all the processes of personnel administration. It has a discouraging effect on recruiting. It tends to deter ambitious and capable workers from entering the public service. It frequently causes the better type of worker to leave the public service for work in the field of private enterprise. It discourages workers from entering upon courses of training calculated to prepare them for increased usefulness in public employment. It makes difficult the maintenance of discipline and of good-will and enthusiasm throughout government establishments, As a result it renders difficult the maintenance of high standards of individual and group efficiency.

Conditions in the national government as regards this important aspect of personnel administration are brought out by the following extract from the annual report of the Civil Service Commission for 1899:

At the time of the organization of the Commission the need of promotion regulations was considered so important that in its first report the following language was used:

The principal causes of unjust promotions, in the absence of examinations, are (1) importunate solicitation and coercive influence from the outside, and (2) prejudice, favouritism, or corruption on the part of the appointing officers, We need not stop to enquire which class of these abuses is the most frequent or pernicious. The outside interference is far more indefensible, if not more pernicious, in regard to promotions than in regard to original admissions for the importunate backer of a new man may perhaps know something of the merits of the friend he pushes; but it is sheer presumption for an outsider, ignorant as he must be of the duties of those in a bureau, to assume to instruct the officer at the head as to the merits of those who have served under him for years. Nevertheless, and in plain repugnance to the spirit of the tenth section of the civil service act, the duty of promoting is now seriously embarrassed by solicitations and the coercive influence of persons

having no right of interference nor means of judging of the usefulness of the candidate,

This subject is so closely related to good administration that it has since been discussed in nearly all of the later reports of the Commission. While the civil service act provides for promotion examinations, and provisions to this effect were included in previous civil service rules, practically no progress was made in putting general promotion regulations into force until 1896, when the Commission suggested that a rule governing promotions be incorporated in the revised rules. Rule XI was accordingly promulgated by the President, and the Commission thereupon proceeded to formulate promotion regulations, which were submitted to the several Departments. Promotion regulations have been adopted by some of the Departments while others have thus far taken no action on the suggestions of the Commission. As appointments to classified positions are now made as a result of tests of fitness and without regard to influence, it has followed that the influence which was formerly exercised to control appointments as well as promotions is now directed to the control of promotions, in the absence of regulations requiring that they shall be made only upon merit,

It is to be regretted that more progress has not been made towards adopting promotion regulations. . . . . Promotion regulations cannot be put into force as required under the civil service act and rules without the full cooperation of the officers in the different branches of the service, and it is deemed proper to state that the Commission has not met with that co-operation which is necessary to a fulfilment of the requirements of the law in this respect. It is hoped that the need of promotion regulations, which has already been recognized in a number of the branches of the service, will result in their being put into operation throughout the entire service, so that promotions may be made only upon merit.

Though conditions have undoubtedly improved somewhat during the twenty-odd years that have elapsed since the foregoing was written, it still remains a fact that in few services of the government has any satisfactory promotion system been installed, and that the evil of outside political pressure, exerted in large part through members of Congress, is still generally prevalent,

**Essential Feature of Proper Promotion System.** The failure on the part of governments to adopt proper promotion systems has not been due solely to a low political morality. In no small degree it is to be explained by the difficulties that are



present in working out and operating such a system. Previous considerations of other phases of the personnel problem have already indicated that such a system cannot be had unless certain fundamental requirements are met. These, to recapitulate them, briefly, are:

1. The adoption of standard specifications setting forth the duties and the qualifications required of the incumbents of all positions embraced within the government service.
2. The classification of these positions into distinct services corresponding to their general character, and the arrangement of the positions in each of such services into a hierarchy of positions corresponding to their relative importance.
3. The inclusion within this classification of all the higher administrative positions except those having a political character.
4. The adoption of the principle that, as far as circumstances will permit, superior positions will be filled by promotion from lower positions in the service or by transfer from other services; that is, of the principle which has been designated by the term recruitment from within.
5. The adoption of the principle that merit alone shall determine the selection of employees for promotion.
6. The provision of adequate means for determining the relative merits of employees eligible for advancement.

The first five of these requirements have already been so fully discussed in the chapters dealing with the Public Service as a Career, the Classification of Personnel, and Methods of Recruitment, that no further argument in support of them is required. The only point that it is desired to emphasize in respect to them is the importance of these features in bringing home to the employees not only the opportunities for advancement that are open to them but also the definite lines along which such advancement is to be expected and the conditions that must be met by them in securing it. This means that they have always before them a definite goal towards which they can work and reasonable assurance that rewards will be proportionate to success achieved by them in meriting them. They will, thus, be under a powerful incentive to put forth their best endeavours, both in performing the work called for by their present positions and in preparing themselves for the performance of the duties of the positions, to which they aspire.

Practically, therefore, there remains for consideration only the sixth requirement that has been enumerated, that of the provisions that are needed to put into effect the other determinations or principles. This, however, involves a number of elements, each of which will receive separate consideration.

**Distinction between Increases in Compensation and Promotions.** In considering the question of promotions, the first point to be borne in mind is the distinction between the grant of an increase in compensation and a promotion as that term should be employed. An increase in compensation means merely that the compensation of an employee has been increased without making any change in the position occupied by him or the nature of his work. A promotion means that an employee has been transferred from a lower to a higher position. Though this usually carries with it an increase in compensation, such increase is a collateral result only by the change.

The distinction between these two acts is one not merely of theoretical interest. On the contrary, it is of great practical importance. In the past, in the national government at least, the failure to observe this distinction has worked great injustice to the individual employee and has proved very detrimental to the government service. The practice has been general in the services of the national government not only of designating but also of treating an increase in compensation as identical with a promotion. Employees have had their compensation successively increased without changing in any substantial way the character of their work or responsibilities. The result of this practice was the development of a situation of affairs where large numbers of employees performing identical duties received widely divergent rates of pay. It is unnecessary to point out how greatly such a condition does violence to a proper personnel system.

Responsibility for this practice was due almost wholly to the failure of the government to work out and instal a scientific classification of its personnel. With the putting into effect of the Classification Act of 1923, this condition has been largely corrected in the national government. With such a classification in force, a clear distinction is automatically drawn between an increase in compensation and a promotion. It is the consensus of opinion that the system of personnel compensation should provide for a range of compensation from a minimum to a maximum for all positions other than those of the higher directing officers. Within this range an employee can, therefore, get an increase of compensation without change of status or duties. Under a proper classification system it should be impossible for him to have his compensation increased beyond the range fixed for the position occupied by

him without being promoted to a different position. It will be seen, therefore, that under a classification system there are the two distinct problems of determining: the conditions under which an increase in compensation without change in position will be granted, and the conditions that shall control the appointing power in promoting employees from lower to higher positions.

**Regulations Governing Increase in Compensation.** In establishing a system for the increase of compensation of employees without changing their employment status, the question is presented of the conditions under which such increases shall be granted. The factors usually considered in determining these conditions are those of length of service in the position and demonstrated efficiency. According to the relative weight given to these two factors, three systems may be distinguished: (1) The automatic, when an employee within the range prescribed for the position gets an increase as a matter of course when a certain length of time has elapsed since his last increase; (2) the semi-automatic, when he gets his increase under these conditions, provided he has shown a certain standard of efficiency; and (3) when the increase is granted only as a reward for demonstrated efficiency.

Of these three systems the second, or semi-automatic, is probably the one which on the whole will give the most satisfactory results. This is the position taken by Mr. Mayers:<sup>4</sup>

Between the two extremes of the system in which each salary increase is regarded as an original question and one in which salary increases are automatic and subject to no question, lies what might be termed a semi-automatic system. In this, while the regular award of the periodic increase is regarded as the normal condition a measure of discretion is imposed on the administrative superiors of the employee in withholding the award of the increase under certain defined conditions; and perhaps also of awarding increases at other than the regular period or in amounts greater than the regular amounts for superior efficiency, also under defined conditions. This system preserves substantially all the value inherent in a system of automatic increases and yet permits the salary increases to be used as a means for maintaining and spurring on individual efficiency.

For the success of such a system it is necessary that a normal or reasonable standard of efficiency be first defined, a failure to attain which during the period fixed will result in the withholding of the employee's increase for that

<sup>4</sup>*Op. cit.* p. 484,

period, and that means be provided for determining in the case of each employee whether this standard has, or has not, been obtained.

The Congressional Joint Commission on Reclassification likewise favoured this system, though it believed that great controlling weight should be given to the factor of efficiency not only in respect to the grant of increased compensation but also in holding an employee at his attained compensation. It thus reported:<sup>5</sup>

It is the belief of the Commission that an employee on entering any class, should be paid the minimum rate prescribed for that class, and should be advanced through the intermediate rates to the maximum only on the basis of demonstrated efficiency. Furthermore, the Commission believe that with successive salary advancement, the standard of required efficiency should be increased so as to enable only the most efficient employees to secure the maximum rate. Thus, if four rates of pay were provided for a given class, an efficiency rating of 80 per cent. might be required for advancement from the minimum to the next higher rate, 85 per cent to the next higher, and 90 per cent to the maximum. Failure on the part of any employee to maintain the standard of efficiency set for the rate being paid should be followed by his reduction to a lower salary rate in the same class, the rate to be determined by his efficiency rating; while failure at any time to maintain a minimum standard of efficiency as prescribed by the Civil Service Commission should be followed by dismissal.

Practically it is believed that the system as recommended by the Joint Commission would work substantially as the one described by Mr. Mayers. Experience has demonstrated that administrative officers rarely exercise the power to demote employees and that provision of the commission's recommendation would probably be a dead letter. Its existence might, however, exert a moral influence and enable the appointing power to take discretionary action in aggravated cases.<sup>6</sup>

5 Report, p. 124.

6 Mr. Mayers, in his volume, states that the automatic method is employed by but two services of the national government; the Public Health Service and the Coast and Geodetic Survey, and by these only in respect to their directing and technical personnel. These systems are modelled upon the system of longevity pay in force in the army and navy. The Public Health Service system provides that 10 per cent shall be added to the "base pay" of the grade occupied by the officer for each five years of service, counting from his entrance into the service, and regardless of his length of service in the grade. A

**Eligibility for Promotion.** Turning now to the subject of promotion proper, that is, the advancement of personnel from one position to another of higher grade, one of the first questions to be determined is that of eligibility; that is, of the right of employees even to be considered for promotion to the positions to be filled. As will be seen, this eligibility involves a number of factors:

**Personal Qualifications as a Factor of Eligibility.** It has been shown that under a proper system of classification of personnel, specifications are made for each position, setting forth the character of the duties of the positions and the qualifications that must be possessed by the incumbent. It is evident that the possession of these qualifications which relate not merely to knowledge and skill, but often to such matters as experience or the possession of academic degrees or other certificates, constitutes the first condition that must be met by employees in order that they may be even considered for promotion to the position to which such specifications relate. The manner in which these specifications are drafted, thus, has a direct bearing upon the determination of promotion conditions. They may be so drawn as to make very narrow or very broad the field of eligibility. One consideration should, therefore, be given to this feature in the preparation of position specifications.

**Service Status as a Factor of Eligibility.** Though important the question of eligibility from the standpoint of the possession of specified personal qualifications involves few, if any, matters of general policy; the questions involved being chiefly of a technical character. It is quite otherwise, however, in the case of the factor

maximum of 40 per cent increase, attained at the end of twenty years' service is fixed; and certain maximum salaries, less than would be reached under the 40 per cent maximum, are fixed for the higher grade. This system of "longevity" applies only to the commissioned medical officers.

The law governing this matter in respect to the Coast and Geodetic Survey provides that commissioned officers of that organization shall receive the same pay and allowances, including longevity as officers in the navy with whom they hold relative rank.

The semi-automatic system, Mr. Mayers states, is to be found in the case of postal clerks and railway mail clerks in the Postal Service and assistant examiners in the Patent Office. Here the law provides for periodical increases of compensation upon its being demonstrated that the employees receiving them have attained a reasonable standard of efficiency.

*Over the remainder of the federal service no general system of salary increases, whether automatic or semi-automatic, is in existence. Over all the enormous clerical, technical, and specialized employments, outside the areas already mentioned, the question of compensation increase is, in almost all cases, still handled in the unsystematic primitive manner which has been described above as being characteristic of small and struggling organizations. Op. cit., p. 489.*

of service status. Here there is presented the important question of the area of the government services from which in any given case employees may be chosen for promotion. Stated more specifically, this question is as to whether, in any given case, eligibility for promotion shall be confined to those holding positions next in rank below the position to be filled in the service in which the position to be filled is classified; to any employee holding a lower position in that service; to employees in the particular organization unit in which the vacancy exists; to employees in the bureau of which that organization unit is a part; to employees in the department in which the bureau is located or to employees in the entire government service.

The mere statement of these alternatives shows the extent to which the essential character of a promotion system will be determined by the choice made, and the difficulties that exist in making such choice. The advantage of restricting narrowly the field of eligibility for promotion is evident. Under this practice, the line of promotion is fixed with great definiteness. Employees see clearly the rewards in the way of advancement that are open to them and what they must do to earn them. In many cases the employee who will succeed to a higher position when it becomes vacant is practically determined in advance, and he can be preparing himself for his new duties and responsibilities. The fact that an organization unit or a bureau does not go outside its own personnel in making an appointment, furthermore, tends to develop in such unit or bureau an *esprit de corps*.

To these advantages are opposed, however, certain disadvantages, chief of which are the narrowing of the opportunities of employees for advancement and of the source for securing employees of the greatest competence. Though an employee under this system finds the line of his promotion definite and in a manner more certain, he, on the other hand, is restricted from competing for promotions to vacancies occurring elsewhere in the government service. In like manner the service, instead of having a large number of eligibles from whom to choose in making a promotion, restricted to the comparatively few to be found in the narrower area.

It is evident that the relative importance of these advantages and disadvantages is largely dependent upon the size and character of an organization unit or service. At one end of the scale stand such services as the military and naval establishments, where the desirability of determining in a very definite and restricted way the line of advancement is evident. At the other end stand such services as the accounting and statistical services, comprehending a personnel which is not embraced in distinct services from the

organizational standpoint but is scattered throughout the government services generally. Here the attempt to restrict promotions to those in the organization unit, the bureau or even in the department in which the vacancy occurs, may work a hardship both to the employees engaged in these lines of work and to the services of the government in securing the most competent men for the places to be filled.

Due to this diversity of conditions to be met, no greater mistake could be made than to attempt to handle this problem in a uniform way in the sense of devising a system of universal applicability. All that can be said is that the effort should be made to put into effect the following general principles: First, the most important of all, there should be recognition that the problem of devising a proper promotion system is one that varies with each service and that, consequently, the system for each service should be worked out as an independent problem so as to secure one adapted to the conditions there to be met.

Secondly, in devising such systems the effort should be made to provide for a reasonably broad opportunity for promotion for all employees. This means that in such services as those of accounting and statistics, the field of promotion should be that of all employees engaged in such services, regardless of the organization unit in which such work is carried on,

Thirdly, it is desirable that some preference should be given to employees in the organization units in which the vacancy to be filled occurs over those employed in other organization units. This may be secured by giving a greater weight to the ratings of such employees or by leaving to the appointing power comparatively wide discretionary power in making such promotions. When this is done it is certain that such appointing power will in most cases favour employees of his own service. This, however, should not go so far as to prevent a comparatively free promotion of employees in one bureau or department to superior positions in another bureau or department. For, as Mr. Procter has stated:<sup>7</sup>

A plan that permits inter-departmental promotion opens up the opportunity for growth and development to all properly qualified members of a system of public employment regardless of the organization unit in which they were originally appointed. It relieves the situation of those who have found their way in what would otherwise prove "blind alley" occupations. It removes a frequent cause of unrest and dissatisfaction and tends to promote materially the moral of the public service. By opening up

<sup>7</sup>*Op. cit.*, p. 183.

the opportunity to compete for the higher positions to all qualified members of the service it ensures a larger field from which to choose workers for the higher positions and increases accordingly the chance of finding workers who are well qualified and competent to occupy the higher positions.

**Factors in Determining Selection among Eligibles for Promotion.** Having reached a decision regarding the question of eligibility, the next element in the problem of devising a system for the promotion of personnel is that of determining the elements or factors that will be given consideration in making a selection for promotion among the eligible class. A study of this phase of the problem and of the actual practice of governmental systems shows that these factors are four in number:

1. Seniority or length of service
2. Service ratings or efficiency records
3. *Competitive examinations*
4. Personnel judgment of the appointing officer or of a special promotion board

**Seniority as a Promotion Factor.** In practically all promotion systems of government services some consideration is given to the length of service of eligibles in determining the selection of the particular employees to be promoted. This varies all the way from where it merely influences the judgment of the appointing officer or is permitted to control when other things are equal to where it is made the dominant factor. As is well known, this latter principle is the one that is followed in the military establishment of the United States as respects commissioned officers other than those of the highest rank. The only qualification to its employment is that the officer so indicated for promotion shall successfully pass a non-competitive or pass examination. This system is also employed by certain of the civil services of the national government which are organized on a quasi-military basis, of which the most important are the Public Health Service and the Coast and Geodetic Survey.

The arguments in favour of this system, as stated by Mr. Mayers, are:<sup>8</sup>

....that the length of service of employees determines in great part their technical qualifications that under this system internal strife for advancement is eliminated; that those responsible for making promotions are relieved from political or other outside pressure, and the feeling that is engendered in the service that promotions are being made with an



even-handed justice tends to promote good feeling and thus promote general morale. It is held, furthermore, that the greater certainty of promotion that is held out to the individual employee attracts a better class of men to the service and retains in the service many valuable employees who would otherwise leave it.

The obvious drawback to this system is that it does not necessarily result in the selection of the most competent eligible. This objection, though by no means obviated, is lessened when great care is taken in the original recruitment of personnel and when the pass examination is sufficiently rigid. It is of interest to note that this system does not meet with the unanimous approval of military officers, there being a strong feeling that a system under which officers for promotion would be selected by a special board of superior officers, which would carefully canvass the qualifications of eligibles, would be preferable. Mention should also be made of the fact that there is general agreement that it should not be followed in respect to higher positions, and that in time of war greater consideration is given to the factor of personal judgment on the part of the appointing power, partly in order to secure greater assurance that only the best qualified are given important commands and partly to secure younger men for such position.

It is difficult to pass any final judgment on the merits of this system. It may, however, be safely said that it should find no application except in the case of such highly organized services as the ones that have been mentioned and where it is checked by great care in the original recruitment of personnel and in the use of stiff pass examinations. In the purely civil services, most persons, it is believed, will hold that some weight should be given to this factor; just how much, however, will depend upon the circumstances of each case.

**Service Rating or Efficiency Records as a Promotion Factor.** It is elsewhere pointed out that the establishment of means for the methodical determination of the efficiency with which employees perform their duties is an essential feature of any proper public personnel system. That such rating system should, in most cases, play an important part in determining promotions, goes without saying. The only question is the extent to which this factor should be given controlling weight. In seeking an answer to this question, certain facts must be given consideration.

The first of these is that service records have for their purpose to determine the relative efficiency with which the duties of the office occupied are performed rather than qualifications for another position. It may well happen, therefore, that the efficiency

with which the duties of one office are performed does not necessarily furnish convincing proof of qualification to perform the duties of another position calling for a different order of abilities. This condition, it is evident, is more likely to occur in the case of the higher positions when the qualifications are of a more personal or technical character. In those services which are highly classified, it would seem that efficiency records should furnish an indication of high value regarding the relative abilities of employees in all but the upper grades to perform the duties of the next highest position. As Mr. Mayers has put it:<sup>9</sup>

✓ If any form of restriction upon the discretion of the administrative officer in making selection for promotion is to be imposed, the use of efficiency records is obviously one that commends itself as most nearly approaching the result which would be obtained by the honest, unrestricted exercise of such discretion. Indeed the determination of promotion by efficiency records currently maintained is, in ideal theory, not a limitation on the discretion of the administrative officer in selection for promotion but is merely a guide to him. If the efficiency records are correctly designed and properly maintained, the individual whom they indicate as properly in line for promotion should be the same as the one who would be selected by the unshackled judgment of the administrative superior when that judgment is based, as it should be, upon a full knowledge of all the facts of past performance of the several employees from among whom selection must be made. The record thus serves at once as a guide to the administrative officer, and as an impartial and irrefutable indication of the soundness of his choice. Needless to say, this beneficent theoretical function of the efficiency records cannot be realized fully in practice.

Another feature that makes it difficult to rely wholly upon service ratings in determining promotions is that of the desirability in many cases, of considering claims to consideration of employees working in different subdivisions of an organization unit, or even in different organization units or services. In these cases the employees are not under the same rating system and it is difficult to determine their relative merits. In such cases a better test may be that of a competitive examination, qualified by the provision that only those having a certain rating may be eligible to take the examination. It will be seen, therefore, that greater reliance can be placed on the factor of efficiency rating in determining promotion in those services comprehending a large number of employees where it is not necessary to go outside of the service to find eligibles,

<sup>9</sup>*Op. cit.*, pp. 322-23.

Finally, note should be taken of the two cases where efficiency records are maintained merely as an aid to the appointing power in exercising his direction in respect to the selection of employees for promotion and where such records constitute a legal limitation upon his discretionary powers. As will be later pointed out, much can be said in favour of not restricting within too narrow limits the exercise by the appointing power of his personal judgment in determining who should be promoted. In the great majority of cases the two systems, will in practical operation give the same results; that is, the appointing power, though not legally obligated to do so will in most cases select for promotion the employee indicated for advancement by his efficiency records. It is an open question, therefore, whether there is sufficient gain in making efficiency records a legally controlling factor to offset the disadvantages that necessarily inhere in mechanical method of selection.

It is of interest to note that this is practically the condition that obtains in the national government. In most of the executive departments and bureaus, administrative orders are in force providing for the maintenance of efficiency records of some sort. In practically no case are they given controlling force. Almost invariably they serve merely as a guide or assistance to the appointing officer in making his decision.

**Competitive Examinations as a Promotion Factor.** The problem of the extent to which advantageous use may be made of competitive examinations in determining promotions is similar in most respects to that of the use of this method in securing entrants to the service, with this important qualification. In the case of the original recruitment of employees, the administration is for the most part dealing with a number of candidates about whom it knows little or nothing, and the examination constitutes its only or, at least, its most effective means of securing information regarding their relative qualifications. In the case of the promotion of employees, the administration is dealing with a body of candidates that have been under the direct observation of superior officers and it has through the use of service ratings means of testing in a most practical manner their qualifications and personal attainments. For this reason it is believed that the use of competitive examinations as an obligatory, controlling method of making promotions finds but a comparatively restricted field in public personnel systems. This is not saying that there are not cases where it can be employed with advantage: as, for example, where the opportunity for promotion is thrown open to employees in a large number of separate organization units, where the duties of the position to be filled call for little more than technical skill, or where the appointing officer may desire on his own initiative to make use

of this method in deciding between the merits of a number of selected candidates.

**Personal Judgment as a Promotion Factor.** The three promotion factors that have been discussed have the common characteristic that they represent formal or mechanical methods of determining qualifications, and as such are substitutes for, or limitations upon, the discretionary power of appointing officers. There remains for consideration the important question as to the extent to which any of them, along or in combination, offers advantages superior to the personal judgment of the officer having responsibility for action.

As regards the answer to this question, two schools of thought may be distinguished: one composed of those outside of the administrative services, in which class is included private persons interested in what is known as civil service reform, and members of civil service commissions, and the other of those in direct charge of administrative services. The former school in general advocates making the formal or mechanical methods of promotion obligatory. In doing so it has in mind the prevention of abuses rather than the working requirements of a personnel system. The latter school, composed of practical administrators, is quite generally opposed to these formal methods of selection or, at least, questions their efficacy.

The solution of this problem, it is believed, lies between these two positions. It consists in giving weight to all three of these factors, but not in making them absolutely controlling upon the appointing officer. This means that while the discretion of that officer will be the controlling factor, he will give consideration to the factor of seniority, and will develop to the utmost the maintenance of efficiency ratings and make use of competitive examinations when found advisable to the end that he may be guided in making his decisions by all of the facts thereby brought out.<sup>10</sup>

10 Mr. Mayers' solution of this problem is that of placing the promotion of employees in the hands of a board organized in each service, on which the employees have representation. Though the present writer is not in accord with Mr. Mayers in this position, his proposal has much to commend it. The passage in which he states it is, therefore, reproduced in full:

"It is believed that the key to the problem lies, not in substituting mechanical methods for free discretion, but rather in so guarding the exercise of free discretion that it may be employed without fear of the injection of political or personal favoritism. This can be accomplished by the development of machinery and organized procedure for exercising discretion in promotion as against entrusting that discretion wholly to a single administrative officer. In each service, bureau, or other organization unit, there should be developed a committee of administrative officers charged with responsibility for

**The Question of Central Control over Promotions.** In framing rules and regulations governing promotions, few questions have given rise to greater differences of opinion than that of determining the respective fields of authority of the operating services and the central personnel agency.

On the one hand, the former have for the most part strenuously opposed the intervention of the latter in the handling of this branch of personnel administration. They have insisted that they had direct responsibility for the work of the employees included in their organization, that they were best situated to determine the character of criteria that would most effectively reveal the relative merits of employees eligible for promotion, and that they and they alone, had that knowledge of the qualifications and character of the past services of employees to enable them in

making recommendations in respect to all selections for promotion. Provision should be made for developing and furnishing to this committee or body complete information regarding the character of work performed by, and the qualifications for promotion of, an employees. The basic element in the provision of this information should be, of course, a system of efficiency or service records currently maintained. This record should be a current record of all facts bearing on the employee's service. It should be made periodically; but entries may also be made from time to time as special occasion therefor arises. It should contain expressions of opinion as well as statements of fact. These may be expressed in any terms which may seem best to the administrative officer whose own convenience will dictate, of course, the desirability of expressing all records so far as possible in standard terms. These periodic records should be supplemented by a full statement, submitted by the proper administrative officer at the time of the proposed promotion, explaining with particularity any reason for a variation from what would normally be expected from the face of the efficiency records previously entered. It should also be within the power of this committee or board to summon before it for interview, or even for written test, if it thinks such test appropriate, all the candidates or such of them as it may deem desirable. With all these various sources of information at its disposal, it is believed that a committee animated by a desire to act fairly could effect, in virtually every case, a recommendation consonant with the best interests of the service from the standpoint both of administrative efficiency and of the morale of the service; and that its judgment, in almost every case, would coincide with that of the administrative officer immediately concerned.

A question of no little importance in providing for such promotional boards is whether or not representation on such boards should be given to the central personnel agency, the Civil Service Commission. If the policy advocated in this volume of increasing greatly the responsibility of the Civil Service Commission for seeing that proper personnel methods are employed by the several departments and services is adopted, it is believed that substantial benefit would result from at least giving to the Commission the right, if it so desired, of having a representative participate in the board proceedings." *Op. cit.*, pp. 342-43.

concrete cases to determine to whom the promotions should be given.

On the other hand, advocates of centralized control have contended that, while these conditions may be largely true, there are other factors requiring consideration. Summed up, these are: that, if the operating services are subjected to no superior direction and control, there will be no assurance that these services will disregard all considerations other than merit in determining promotions, that they will not yield to political or personal pressure, that consciously or unconsciously they will not be unduly influenced by personal feelings, that they will devise and, in effect, operate proper rating system for determining the relative efficiency of employees. They further state that a condition of affairs where the whole employment status and future of employees are subject to the uncontrolled action of a single officer or small group of officers, is one bound to have certain unfortunate consequences. One constantly hears the statement that an officer having the power of making or recommending promotions has his favourites and those whom, to use the vernacular, he has it in for. Whether this is true or not, the fact that it is believed in many cases and the further fact that an employee who believes he has been improperly passed over in making promotions has no redress produces, it is claimed, a situation where injustice may be done in individual cases and general morale of the service may be jeopardized.<sup>11</sup>

Examination of the issue here raised shows that a superior control by a central personnel agency over operating services in respect to matters of promotion may be exercised in three ways.

In the first place, the central agency may limit its action on this field to general orders ensuring that the operating services are carrying out in good faith the provisions of laws or executive orders bearing upon this matter and requiring from such services

<sup>11</sup> "Closely related to it (elimination of political considerations) is the desirability of giving the employees that assurance of impersonal fairness in making promotions which the use of formal methods provides. Though administrative officers may not be actuated by personal or political consideration, nevertheless a feeling not infrequently arises among the employees that such motives do have weight. Incidentally it may be remarked that, in not a few instances, the employees in daily working relations with the person selected for promotion are in a better position to form an estimate of his capabilities and limitations than the superior whose contact with him has not been so intimate. Whether this is so or not, the fact remains that in most large organizations, public or private, the uncontrolled exercise of discretion in selections for promotion almost invariably tends to result in general dissatisfaction. For this reason the use of formal methods of selection for promotion may be regarded as inherently desirable." Mayers, *Op. cit.*, p. 306.

of reports or returns that will enable it to determine the manner in which those orders are in fact being carried out.

Secondly, it may go beyond this and seek to prescribe in more or less detail for each service the factors that shall govern in the making of promotions, the relative weight that each shall have, and the procedure, whether through the employment of efficiency rating systems, competitive examinations, or otherwise, that shall be used in evaluating these factors and subsequently to assure itself that these orders are properly carried out.

And, thirdly, it may perform the function of an appeal board to which individual employees, who feel that they have been unjustly treated in the matter of promotions, may appeal,

Of these three methods of action, there can be little doubt that the first is the one that, at the outset at least, should be employed. The function of a central agency, in a word, should be merely one of general supervision; that is, taking action that will ensure that the operating services observe certain fundamental principles, such as the merit system, and making use of some method for determining the relative merits of those eligible for promotion. Any attempt to go beyond this gives rise to the danger of transferring responsibility for the handling of personnel from the heads of the services, where it properly belongs, to the central agency.

Apart from this fundamental consideration it is doubtful whether a central agency is competent to devise and prescribe efficiency rating systems and other means of determining promotion qualifications for the operating services. It has been pointed out that no one efficiency rating system is satisfactory for all services. In general, each service must have a system devised with special reference to its own needs as determined by the character of its work. Responsibility for the devising of such system should, therefore, rest upon the several operating services. It would be a reasonable requirement, however, that they should submit such system as first worked out to the central personnel agency, both for its information and in order that it might make such criticism of, and suggestions in relation to, them as it deemed proper. It is altogether probable that the central agency, thus having before it all of the rating and promotion systems of the several services, would be able to make valuable suggestions in relation to them that would be readily accepted by the services. In this way it could probably accomplish more than it could if it had the absolute power of prescribing the promotion procedure to be followed. Where the system of a service was thoroughly unsatisfactory and the service refused to improve it, the central agency could as a last resort bring the facts to the attention of the

service's superior officer, the head of the department, or, if need be, the President himself or Congress.

In no case is it believed that the central agency should have the right to substitute its judgment for that of the head of a service in respect to promotion of individuals. The farthest that intervention in this respect should go would be the establishment of the principle that an employee who believed that he had not received justice in the matter of promotions should have the right to lay a statement of his case before the central agency. This right would act as something of a check upon an administrative officer who was inclined to let other than proper considerations determine his action in the making of promotions.



## CHAPTER XX

### DEMOTION AND DISMISSAL OF PERSONNEL

It is hardly necessary to say that if efficient service is to be secured from personnel, those in authority must have adequate disciplinary authority over those employees for whose direction and work they are responsible. In our chapter dealing with the promotion of personnel we have had to do with one of the most effective means possessed by the directing heads of services of securing good work from their employees: that, namely, of holding out to such employees the prospect of reward for faithful and efficient work in the form of increases in compensation and advancement to more responsible and higher paid positions. Effective as this means is, it alone is not sufficient. If the requirements of the situation are to be fully met it must be supplemented by the correlative power of imposing penalties upon those whose work does not measure up to a fair standard of excellence or whose general conduct is such as to bring discredit upon or otherwise to lessen the moral of the service. These penalties can take various forms—the deprivation of privileges, such as annual leave, the imposition of fines, suspension without pay, demotion to a lower compensation or position, or dismissal.

Of these several penalties, only the last two are of practical importance. This is due to a number of reasons. In the first place there is a general feeling that the penalties of imposition of fines, deprivation of privileges, or suspension without pay, are of a character that do not comport with the dignity of the government service. Combined with this is the conviction that the employment of these penalties would do more harm than good, since their use would engender in those subjected to them a soreness and resentment that could not fail to lessen their loyalty and detract from the interest with which they would perform their duties in the future. Certain it is that little or no use is made of these penalties by the national government and it is believed by few other governments of the United States. With the feeling that exists in regard to them this is probably a wise thing. Due to this, the problem of controlling persons through the infliction of penalties narrows down to that of the conditions under which use should be made by those in authority of the power to demote and, in extreme cases, to dismiss employees.

**Necessity that Appointing Power Should Have Power of Demotion and Dismissal of Personnel.** As has been stated there can be little doubt but that a proper personnel system should vest in the appointing officer the authority to demote and, if need be, to dismiss the employees appointed by him. This is necessary for two reasons: to enforce discipline and to ensure that employees are not retained in positions for which they are not fitted. To state this in another way, the good of the service may require the demotion or dismissal of an employee for two reasons: one, if where the employee has the ability but for one reason or another does not properly perform the duties of his office; and the other, if due either to his original lack of capacity or the subsequent impairment of his faculties, he is unable, through no fault of his own, to meet the requirements of his position. Action in the second case may seem to impose an unmerited hardship upon the employee concerned, but the situation is one where individual interests must give way to the general interest.

**Necessity that Power of Demotion and Dismissal Should Be Exercised.** It is desired to emphasize the importance of the appointing officer, not only having this power but also of actually using it, since the failure to employ this power when circumstances render it desirable is responsible in no small degree for inefficiency in the public service, and the attempts to reform the civil service of our governments in other respects, as, for example, in making the service more permanent and in imposing limitations upon the appointing power with a view to ensuring that action is not controlled by political or other improper motives, have had the tendency to restrain still more the use of this power,

With respect to the first point, it is a matter of common knowledge that employees in the government service are retained in the service or in particular positions, who either do not have the qualifications for the proper performance of their duties, or, having them, do not exercise them in a proper manner and who, if they were in private employment, would be summarily demoted or dropped.<sup>1</sup>

<sup>1</sup>That officers of the national government almost wholly fail to exercise their power of demoting or dismissing incompetent or inefficient employees is shown by the following quotation from Mr. Mayers, study (pp. 505-07):

"In 1890 Congress imposed upon the heads of the several executive departments the duty 'to report to Congress each year in the annual estimates the number of employees in each bureau and office, and the salaries, of each, who are below a fair standard of efficiency.' This statute, it will be observed, does not require that those below a fair standard of efficiency shall be removed from the service, but it is doubtless equivalent to a moral mandate. Furthermore, it makes no distinction between employees whose inefficiency is due to age or physical infirmity and those inefficient for other reasons."

With respect to few features is there a greater contrast between public and private employment than in respect to this. It is thus of the utmost importance that provision should be made in some way for the most energetic use by government officers of the power to demote and dismiss employees than is now the case. As Mr. Mayers has excellently put it:<sup>2</sup>

From the negative side the most important means for ensuring individual efficiency lies in the possession by those in authority of the power to demote or dismiss those employees who do not perform their work satisfactorily. This means of control is effective, however, only if it is rigidly exercised when circumstances warrant. In private undertakings for gain few difficulties lie in the way of such exercise. Not only does the profit element constitute a strong incentive to its use, but those upon whom responsibility for action rests as a rule do not have to secure the approval of any superior authority and only rarely have to justify their action. In a government conditions are radically different. Not only is the profit element usually absent, but those directly in charge of operations are rarely free to act, due to the fact that superior sanction must often be obtained,

It results from this that it is exceedingly difficult to secure from public administration anything like the exercise of the power of demotion or dismissal that conditions in

"In the reports submitted pursuant to the statute just referred to for the year ended June 30, 1919, the Secretary of State categorically states 'that there are no employees in the Department of State below a fair average of efficiency,' and the Chairman of the Federal Trade Commission and of the Federal Board for Vocational Education, the only independent establishment which filed reports pursuant to the statute that year, are equally positive. The Secretary of the Treasury somewhat more modestly submits a statement from the chief clerk of the department to the effect that the following offices, and the list embraces all the offices of the Department, 'report that there are no employees therein who are below a fair standard of efficiency.' Similarly the Secretary of the Navy reports that 'my information is that there are no employees in this Department below a fair standard of efficiency' and the Postmaster General states that 'based on efficiency ratings, there are no employees of this Department who are below a fair standard within the meaning of the act.' The Attorney General states that it is reported that there are no employees in this Department, so far as officially informed, who are below a fair standard of efficiency. Each of the remaining executive departments reports several employees as being below a fair standard of efficiency. The War Department stated that in each of the cases reported by it 'a reduction in grade is contemplated.' None of the other departments indicated what action it proposed to be taken in the cases reported by them. It is evident that the departments have not taken this requirement seriously, and that no good is accomplished by it."

<sup>2</sup>Mayers, *The Federal Service*, p. 492.

the several services more than warrant. It is open knowledge that many employees who are notoriously incompetent and inefficient are retained on the rolls, though the character of their work is well known by those in charge of them.

One of the changes urgently needed in the federal services, therefore, is the taking of those steps which will tend to ensure a more vigorous exercise of the disciplinary power.

**Evils of Restrictions upon the Power of Demotion and Dismissal.** It is easy to state that government officers should make a more vigorous exercise of their power of demotion and dismissal. It is not so easy, however, to devise the means that will ensure that they will do so. One thing, however, can be done. That is, to remove certain restrictions which tend to prevent them from taking action in this way. It has been repeatedly pointed out that advocates of civil service reform have been in the past open to the criticism that in their desire to prevent abuses, they have not given due regard to the more positive sides of the problem of securing efficiency in personnel administration. To too large an extent their proposals have had for their purpose to prohibit or restrict the action of the appointing and directing authorities. This tendency is especially in evidence in respect to the matter under consideration. In their desire to prevent these authorities from abusing their powers through yielding to political or personal pressure or being guilty of arbitrary action that would work injustice to employees, they have secured the enactment of laws or the adoption of regulations restricting in various ways the exercise by appointing officers of their power to demote or dismiss.

These restrictions vary all the way from where the power of making demotions and dismissals is practically taken out of the hands of the administrative officers and vested in some other agency to where the limitations upon the appointing officer consists merely in such requirements as that no employee shall be demoted or dismissed except for cause, that before final action is taken he shall have an opportunity to be heard in his own defence, and that the cause for which a demotion or dismissal is made shall be set forth in writing and filed with some appropriate officer. In examining these limitations it is desirable to begin with those that are of the most restrictive character.

The furthest point to which restriction upon the power of administrative officers to demote or dismiss their employees may be carried is to take that power away from them entirely and to vest it in some other authority. This provision, as regards dismissals at least, is found in the personnel systems of a number of American

governments. In these cases the dismissal power is vested in special trial boards, usually composed of members of the Civil Service Commission, and in some cases with provision for employee representation. Mr. Mayers mentions Chicago as the leading example of a personnel system containing this provision. The arguments for and against this system are stated by Mr. Mayers as follows;<sup>3</sup>

Opinions have differed very widely as to the wisdom of this provision, both in theory and as it has worked out actually in Chicago and elsewhere. It has been contended by the advocates of the system that it results in prompter and more general removal of the inefficient because it relieves the administrative officer of the burden of ordering such removals, putting him merely in the position of a complainant, while the onus of the final decision rests upon the trial board; and that this board is able to exercise its power fearlessly because it need not dread incurring the disfavour of the employees, since it does not require their future co-operation, as does the administrative officer, in order to succeed in its work. On the other hand, the opponents of the system condemn it as relieving the administrative officer of a responsibility which should squarely be his, of depriving the energetic and forceful administrator of the power of removal which he should have if he is to retain control of his department, and of furnishing the incompetent employee an elaborate protection against removal to which he is not entitled and which, on the contrary, redound to the disadvantage of the service. The view upon the point last mentioned is based upon the belief, which it can hardly be doubted is supported by experience, that when a body is created, as in this case, nominally to deal out even-handed justice but actually to protect the interests of the employee, almost invariably it tends to develop a bias in favour of the employee, so that the administrative officer who prefers charges against the employee is likely, when he appears before the board, to find himself actually in the position of a defendant, though nominally complainant.

In the opinion of the writer the objections to this system far outweigh its alleged advantages. That it diffuses responsibility, something which should always be avoided if possible, is evident. That it lessens the direct control of administrators over their subordinates is equally clear. Finally, it places the administrator in a position where he is, in a measure, put upon his defence even in respect to the recommending of action. As has been pointed out,

<sup>3</sup>*Op. cit.*, p. 503.

an administrator is at best loath to take the action that will result in the demotion or dismissal of an employee. If he has got to defend his action in each case before an outside board, which may not be sympathetic if not actually hostile, he will simply refrain from doing anything except in extreme cases where action cannot be avoided. The only case where it is believed some such system as this properly finds a place, is in a service of a military character or of a quasi-military character, such as the police and fire services of our municipalities.

A second method of restricting the demotion and dismissal power of administrators is that of requiring them, before taking action, to bring the matter before a board organized within the service, or within the department to which the service belongs, and composed partly of representatives of the directing personnel and partly of representatives of the employees proper for its consideration and advice. Though this system is much less objectionable than the one just considered, it is still open to the objections that it allows the administrator to shift his responsibility to a certain extent and that it places him in the position of perfering charges which he must defend. This may occasion no trouble in extreme cases where misconduct is the ground for action. These cases, however, are relatively infrequent. Much the most numerous cases are those where no charges of a specific character can be brought, where the reason for action lies in the general inefficiency of the employee, his lack of the special qualifications required for the performance of the duties of the office held, or simply that he is a square peg in a round hole.

Still a third method of restricting the administrator's power of demotion or dismissal is that of providing that an appeal from his decision in respect to matters of this kind may be made to a superior administrative officer, as, for example, from the head of a field station to the bureau chief at Washington or from the head of a bureau to the head of the department in which the bureau is located. This is the system which practically obtains in the federal service, due to the fact that for the most part the appointing power, and consequently the power to demote or dismiss, is vested in the head of the departments rather than in the heads of the bureaus and field stations. The result of this is that all the bureau or station chief can do is to recommend action, the final decision resting with the department head. The objections to this system are that it divides responsibility and by compelling the officer in charge to justify his recommendation to another officer to restrain him from acting when regard for the good of the service would make it advisable. As Mr. Mayers, in commenting on this provision, says:<sup>4</sup>

<sup>4</sup>*Op. cit.*, p. 493.

Since the conditions and necessities of the public service are not those that, in any case, make for a firm exercise of the removal power, the investment of the head of the department rather than the bureau head with the final legal authority for removal constitutes a division of responsibility which still further lessens the probability that the power will be vigorously exercised. The situation is well illustrated in the case of a local employee who is appointed by the head of the department. The final responsibility for his removal rests not on the local chief nor yet upon the chief of the bureau at Washington, but upon the secretary of the department. Thus the local chief and the chief of the bureau are each in turn relieved of the necessity for final action and may shift that responsibility to their superiors. The net result is a system of circumlocution and delay in handling questions of reduction and removal which is one of the distinguishing defects of the federal personnel system.

Of a radically different kind are those restrictions or rather provisions which have for their purpose, not to limit the power of an administrator to demote or dismiss, or to compel him to share responsibility with some other officer or board, but merely to give evidence that he is acting from a proper motive. These consist of the requirements that before acting, the employee interested shall be given notice of the action proposed to be taken, and of the reason therefor and that he be given opportunity to be heard in his own behalf, and that the officer acting shall reduce to writing the grounds upon which he has taken action and file a copy of such paper both with the papers of the case and with the central personnel agency. The check upon the administrator in these cases is, it will be noted, wholly of a moral character. It is none the less effective if the problem is considered from a general standpoint. Though under this system, unwarranted action may be taken in individual cases, few administrators will be willing to subject themselves to the criticism that would be bound to be made by the central personnel agency and others if any attempt is made by them to abuse in any general way their powers in this respect. Our general conclusion, therefore, is that restrictions upon the power of administrators to demote and dismiss should rarely go beyond the provisions just discussed. The provisions of the act of August 24, 1912, governing this matter in respect of the national civil service, would, therefore, seem to be thoroughly, satisfactory. It reads as follows:

That no person in the classified service of the United States shall be removed therefrom except for such cause as will promote the efficiency of said service and for rea-

sons given in writing and the person whose removal is sought shall have notice of the same and of any charges preferred against him, and be furnished with a copy thereof and also be allowed a reasonable time for personally answering the same in writing; and affidavits in support thereof; but no examination of witnesses nor any trial or hearing shall be required except in the discretion of the officer making the removal; and copies of charges, notice of hearing, answer, reasons for removal, and of the order of removal shall be made a part of the records of the proper department or office, as shall also the reasons for reduction in rank or compensation; and copies of the same shall be furnished to the person affected upon request, and the Civil Service Commission also shall, upon request, be furnished copies of the same. . . .

On this question of the extent to which the central personnel agency should intervene in respect to removals, the nearest agreement that could be reached by those participating in the Conference Committee on the Merit System is expressed in the following;<sup>5</sup>

About forced removals of employees who do not measure up to a reasonable degree of efficiency, there is the greatest diversity of opinion, though it is generally agreed that the personnel agency should have some part in such removals. There is no denial that in its rules it should prescribe what constitutes cause for removal, nor that in its administrative practice it should see that any employee removed from a permanent position after the expiration of the probation period is supplied in writing with a statement showing the specific facts which constitute the cause for his removal and is given an opportunity to make any reply to such charges that he may desire; also that such written statements and the employee's answer, if any, should be filed as a public record with the personnel agency. There is general agreement too that the personnel agency should be empowered to prevent removals for racial, religious, or political reasons. Some would give the personnel agency no further part in handling removals. Some, on the other hand, would give the personnel agency either exclusive or co-ordinate power to receive or file charges against employees, to make investigations, to determine whether the facts constitute cause for removal or disciplinary action, and to make removals from the service and prescribe and enforce disciplinary measures.

<sup>5</sup> The Merit System in Government, pp. 48, 49.



Some would give this power to the personnel agency for only parts of the service (such as the uniformed fire and police forces),

**Dismissal of Officers Appointed by and with the Advice and Consent of the Upper House of the Legislature.** The manner in which officers appointed by the chief executive by and with the advice and consent of the upper house of the legislature may be dismissed, presents a special case that is of no little interest. The question here at issue is whether the removal of persons appointed through this procedure can be made upon the action of the chief executive alone or whether it requires the concurrence of the upper house that has participated in the appointment. Where, as in the case of many of the states, the law expressly requires such concurrence, joint action by the two authorities is, of course, necessary. In the case of the national government, however, the constitutional provisions concerning the appointing power, and most of the statutes based upon these provisions, which vest the power of appointment in the hands of the President with the qualification that such appointment must have the approval of the Senate, make no reference as to whether such consent shall be necessary for the removal of the officers so appointed. The question as to whether such consent should be required arose in connection with the framing of the act of 1789, providing for the creation of the Department of the Treasury, the first executive department to be organized by the national government under its new constitution. By a tie vote in the Senate, which was broken by the vote of the Vice-President in the Chair, it was decided that though the Secretary of the Treasury should be appointed by and with the advice and consent of the Senate, "he might be dismissed by act of the President alone." The controlling consideration leading to this decision was that unless the President had this uncontrolled power, it would be difficult, if not impossible, for him properly to meet his constitutional obligation to "take care that the laws be faithfully executed."

The precedent thus set, as has been stated, has been almost universally followed. In providing for the appointment of the more important administrative officers by the President by and with the advice and consent of the Senate, the laws have generally made no provision regarding the power of removal and the President has been deemed to have the power to remove upon his own action alone.

A departure was had from this practice, however, in the formulation of the act of July 12, 1876, regarding the Postal Service, which provided that postmasters of the first, second, and third classes "shall be appointed and may be removed by the President by and with the advice and consent of the Senate." This act

raised the question as to whether Congress could constitutionally thus limit the power of the President. For many years this issue did not come before the courts for decision due to the fact that Presidents, instead of directly removing postmasters of the classes mentioned, nominated men to succeed them, and the approval of the Senate to such nominations was deemed *ipso facto* to carry with it the removal of the incumbent of the office. In 1920, however, President Wilson in the case of one Frank S. Myers, a postmaster of the first class at Portland, Oregon, elected to act directly, and dismissed Myers without submitting his action to the Senate for its approval as required by law. The legality of this action was contested and the case went finally to the Supreme Court of the United States, where it was decided, on October 25, 1926, that the President had acted within the scope of his powers and that the dismissal was legal. This decision could only be reached by the court holding that the provision of the act of Congress requiring the approval of the Senate to the removal of executive officers appointed by the President by and with the advice and consent of the Senate was unconstitutional. The basis for this position was that the attempt to restrict in this way the power of the President to remove executive officers appointed by him, prevented him from properly discharging his duty of seeing that the laws are faithfully executed. Whatever position may be taken regarding the justice of this decision from a strictly legal standpoint, its results from an administrative standpoint must be deemed to be beneficial.<sup>6</sup>

<sup>6</sup>The decision in this case, *Myers v. United States*, is one of the most important decisions in the field of public law that has ever been rendered by the United States Supreme Court. In the briefs and in the majority and dissenting opinions of the court is to be found a wealth of material regarding the nature of the executive power and the whole subject of the appointment and dismissal power.

## CHAPTER XXI

### SOME SPECIAL PROBLEMS OF PERSONNEL ADMINISTRATION

The foregoing chapters dealing with the recruitment, promotion, and dismissal of employees by no means exhausts the problem presented in securing and maintaining an efficient personnel system. There are many other factors collateral to these operations that must be met if satisfactory results are to be obtained. It is impracticable within the compass of this work to handle all of these special questions. The more important ones should, however, be at least mentioned and their more important aspects commented upon.

**Assignment, Temporary Detail, and Transfer of Personnel.** Among these special questions a prominent place should be given to the problem of assigning personnel to particular tasks. This is a matter that has always given rise to much trouble. All organizations of any considerable size have a strong tendency to develop personnel systems of extreme rigidity in which it is often difficult to move about personnel so as to meet the varying needs of the different parts of the organization or to ensure that individuals are finally given the positions most nearly corresponding to their particular capacities. This tendency is especially strong in the case of governments, where the service status of most employees is fixed by general statute or appropriation acts, and where, consequently, those in charge of employees do not have the same powers of free direction of employees as is possessed by administrative officers in private undertakings. This danger of excessive rigidity is, if anything, increased when a government adopts a comprehensive classification of personnel, which as has been indicated, is a fundamental requirement of any proper personnel system.

In our consideration of the promotion problems, attention has been given to one phase of this question. It has been pointed out that, except in those services which, on account of their size or special character, do not need to go outside of their own force of employees in making promotions, provision should be made whereby an employee in one organization unit could be promoted to a superior position in another service. Such promotion, of course, involves a transfer of the employee from one organization unit to another. In these cases, however, there is no change in the number

of positions comprehended by an organization unit. Such transfers, therefore, do not affect in any way the problem now under consideration of securing flexibility through the transfer temporarily or permanently of employees from one organization unit to another in order to meet varying work demands or the transfer of employees from one service to another within an organization unit or from one organization unit to another in the effort to place them in positions which correspond to their special abilities or even their individual desires.

Confining ourselves to this class of transfers it may be stated that as a theoretical proposition it is desirable that the maximum of fluidity in assigning and transferring personnel should exist. There are many services in which the burden of work is uneven during the year and there are others whose burden of work is constantly growing greater or is steadily diminishing. Unless the possibility exists of shifting personnel, numerous cases will occur where the personnel of certain services are not fully employed all the time and others where the working force is overburdened, or where additional employees have to be temporarily engaged. There are also many cases where individual employees are engaged upon work not suited to their capacities or temperaments who, if transferred to other work for which they are better adapted or which are more congenial to them, would make a far greater return in the form of work performed.

Though these facts are well known, few governments have succeeded in developing the machinery and procedure for handling this matter of transfers in a satisfactory manner. The difficulties to be overcome are the following: In the first place it is difficult to interest one service or organization unit in the affairs of other services or units. For the most part it has secured a grant of funds for the payment of its personnel, and it sees no advantage to itself in allowing these employees to work for other services or organizations. It thus tends to keep to itself the information that the services of certain of its employees might be spared for other work. Those services having need for additional help in order to meet an emergency, thus, have inadequate means of learning the sources from which they might draw employees for temporary work. Secondly, the establishment of a system under which individual transfers might be freely made has led to one bureau or department competing with another for the services of certain employees and to the employees themselves constantly seeking transfers in the hopes of bettering their conditions. These difficulties are most apparent in those governments that have not adopted a scientific classification of positions and standardization of compensation. With such a system in force, competition between bureaus and departments through the offering of higher pay will come to

an end. There will still remain, however, the need for developing a machinery through which the varying work needs of the several services may be made known and the transfer of personnel required to meet these varying needs may be directed. This means that the responsibility for securing such information and seeing that the action needed is taken must be vested in some agency exercising jurisdiction over all the administrative services of the government. Such an agency is the bureau of general administration, attached to the office of the chief executive or the Civil Service Commission.

The handling of this problem would, furthermore, be much facilitated if the legislative branch in voting funds for the compensation of personnel would, as is elsewhere recommended, follow the lump-sum, instead of the itemized or statutory-roll, system of appropriation. Where this is done the compensation of employees transferred could readily be made a charge upon the appropriations of the services for which they actually worked. This would tend to lessen the opposition of services to having their employees detailed for work in other services.

A feature of this branch of personnel administration that is of special importance in the case of the national government is that of the extent to which transfers of personnel between the central offices at Washington and the field establishments should be permitted and if permitted, should be encouraged. Mr. Procter in his work takes the position that such a practice would be highly beneficial. He thus says:<sup>1</sup>

The advantages of such a system lie in several directions. In the first place, especially if appointments to Washington were regarded rather in the nature of a detail for a term than in the nature of a permanent appointment it would result in a continuous interchange of personnel between the field establishments and the departmental offices in Washington. An interchange of this kind is well recognized in large commercial and industrial organization as in the highest degree beneficial. Where no such interchange of personnel obtains, it is almost invariably the case that the central office personnel fails properly to appreciate the conditions and the difficulties under which the field personnel works and that, conversely, the field personnel tends to be impatient of the requirements laid down by the central office with respect to the accounting, reporting, and related matters, the importance of which, for the purpose of central control, is not clearly apparent to those in the field. Hence it is that prompt and willing co-operation between field and central establishments, one of the prime

<sup>1</sup>Procter, *Principles of Public Personnel Administration*, p. 288.

requisites of effective administration, is greatly facilitated by the practice of interchange of personnel here suggested.

There can be little doubt that these advantages exist in the case of certain services. In others they are not so apparent. Here again, the regulations and practices should conform to the special requirements of the several services.

**Service Rating or Efficiency Record System.** Provision for the methodical determination of the efficiency with which employees perform their several duties is an essential feature of any proper public personnel system. This for a number of reasons. In the first place, without this information it is impossible for a government to handle the important question of promotion upon a merit basis. Purely apart from this, however, the maintenance of a system for the determination of the fidelity and efficiency with which employees discharge the duties of their offices is necessary as a means of stimulating a proper *esprit de corps* on the part of the working personnel. Nothing more encourages personnel to put forth their best efforts than the feeling that if they do good work, this will be noted not merely by the officer immediately in charge of their work, but also by other superior officers upon whose action their advancement often depends. On the other hand, if no such effort is made, many employees will feel that they can shirk their obligations with more or less impunity, while even the more conscientious employees will be disheartened by the feeling that any special effort on their part will pass without notice. Finally, the maintenance of an efficiency rating system furnishes one of the best means that an administrator has for resisting outside pressure in respect to the promotion or assignment of personnel. When the request or demand is made upon him to advance a particular employee or to give him an especially favourable assignment, he can produce his efficiency record and show that such action would work a grave injustice to other employees. With such a showing it becomes more difficult for the person making the request or demand to insist upon its being complied with; and in any case the administrator can base his refusal to act upon something more than his personnel unwillingness to yield to outside solicitation.

There are few, if any students of the personnel problem who will question the foregoing. The moment, however, that the attempt is made to put this principle into application, objection is made by the administrator that, however desirable the operation of a system of efficiency ratings may be in theory, practically it is impossible to devise a system that, as regards his particular service will give satisfactory results. It is largely due to this consideration that, notwithstanding the fact that civil service laws of most government bodies which have adopted the merit system provide for

the maintenance of efficiency records, so little practical progress has been made in the installation of such systems.

This position on the part of the practical administration is one that cannot be dismissed offhand. The fact is that the organization of a satisfactory system for determining the efficiency with which employees perform their duties and of rating them accordingly is an exceedingly difficult matter. This difficulty arises from two things: the large number of factors that enter into the element of efficiency, and the wide diversity of the conditions to meet in the several services of a government. Before entering into an examination of the steps that should actually be taken in organizing an efficiency rating system, it is desirable to consider briefly these two elements. As has been pointed out in our consideration of the problem of recruitment, the efficiency or value of an employee is determined, not only by his technical competence in respect to the work to be performed, but also by his possession of certain personal qualifications. Among these may be mentioned such characteristics as a pleasing personality, one which enables the possessor to get along with other employees and to secure the best results from other employees who may be working under his direction, fidelity, reliability, resourcefulness, thoroughness and care in the performance of work, quickness in grasping new situations, executive ability, etc. Any one who has had occasion to direct a body of employees knows how important the possession of these qualities is as determining the real value of an employee. In general it may be said that the higher and more responsible the position, the greater the relative importance of these factors,

It follows from this that no system of efficiency ratings will be satisfactory that does not take account of these factors. Unfortunately, it is just these factors that it is difficult to evaluate in any mechanical manner, such as may be employed in measuring technical skill through records showing the quantity and quality of work done. Great as these difficulties are they can, however, in most cases be overcome. Though not capable of measurement in a mathematical sense, it is possible to secure from those having responsibility for the furnishing of the data going to make up the efficiency records, a report of their judgment with respect to the extent to which each employee has these qualities. An essential feature of a proper rating system, therefore, should be the use of forms calling for a report on each of these qualities by those responsible for making a return regarding the work of those under their direction. Mr. Procter, who made a personal study of the rating systems of a large number of government services, state and municipal, states that in his opinion the system worked out and employed by the municipal Civil Service Commission of

the City of New York is the most successful in meeting this requirement of any system examined by him. This system, as described by him, is as follows;<sup>2</sup>

This system is now applied in rating—three times annually—competitive personnel of all the city departments, excepting the uniformed force of the police and fire departments. The system recognizes three positive factors of efficiency; (1) quantity of work, (2) quality of work, and (3) personality. In addition to these, it recognizes as negative factors (4) unexcused lateness and absence, and (5) misconduct.

Quantity of work is explained as including "volume of work output, speed, industry; in case of positions partly or wholly supervisory, the quantity of group output." Quality of work is explained as including "thoroughness, accuracy, system; initiative; ingenuity, resourcefulness; improvements in technique and organization of work; in the case of positions partly or wholly supervisory, decisiveness, force, poise; ability in planning and organizing work and directing subordinates; quality of group output in the case of positions involving contact with the public or with persons under the city's care or custody, tact, courtesy, and other personal elements affecting the quality of results." Personality is defined as including "willingness, loyalty, influence on fellow workers."

This system provides for a rating on a percentage basis. The factor of quantity of work may be given a maximum rating of 44 per cent. The factor of quality of work may also be given a maximum rating of 44 per cent. The factor of personality may be given a maximum rating of 12 per cent. A uniform weight is assigned to each of these factors in all lines of employment. The standard is fixed in the case of the factors of quantity and quality at 35 per cent, and the case of personality at 10 per cent. An employee who receives a rating of standard in respect to each of these three factors has, therefore, a numerical standing of 80 per cent. The standard is explained as being "the normal performance of any work which may be properly assigned to an employee." It represents the work of the great bulk of employees. The Commission requires that, under ordinary circumstances, 60 per cent. of the employees of a large unit shall be rated "standard" 35 per cent above standard, and five per cent. below standard. All ratings above or below standard must be supported by an adequate statement of the facts of service in question.

<sup>2</sup> *Op. cit* pp. 164-67.



For unexcused lateness and absence, and misconduct, deductions may be made from the rating awarded on the basis of the three factors discussed above. In making these deductions considerable discretion is allowed the rating officer. A deduction of from one to ten per cent. may be made for each unexcused lateness or absence; and a deduction of not less than one per cent. is required for each specific act of misconduct, the maximum amount being left to the discretion of the department. The regulations require that these deductions "shall be in proportion" to the character of the employee's work and the relative seriousness of the offence at the time of its occurrence, due regard being given to its effect on departmental discipline and efficiency."

This system comes nearer to meeting the requirements of public employment than any other system that has been proposed. It has the advantage of being comparatively simple and therefore feasible when put into actual operation. By defining the percentage of employees of a large group that shall fall in the three classes—standard, below standard, and above standard—it establishes a basis for comparisons of individual efficiency. It employs a numerical scale that makes possible an immediate combination of efficiency ratings with the other ratings that enter into the determination of the standing of an employee in a promotion examination. Most important of all, it is based on a comparatively sound analysis of the factors of individual efficiency. It recognizes the fact that in estimating the efficiency of an employee we are primarily interested in the quantity of his output, that is, in his productiveness. It avoids the mistake of analyzing efficiency in terms of factors that are of doubtful importance, or that, if important, are difficult or impossible to measure objectively.

It is more than probable that many who have given this problem of administration serious thought will not feel inclined to give to this system the unqualified endorsement accorded to it by Mr. Procter. Especially may exception be taken to that feature which attempts to give a mathematical value to each efficiency factor. Regarding this point the comments of Mr. Mayers, in which the present writer is inclined to agree, are extremely pertinent. In stating the position of those advocating a system of this character, he says:<sup>3</sup>

For this reason, those responsible for the formulation of efficiency records have generally felt that the system should go further—that it should be such as to limit the

<sup>3</sup> *Op. cit.*, pp. 323-29.

freedom of the rating officer in determining the order of several employees. Consequently, these designers have provided systems in which the several factors or elements of efficiency, upon which rating is to be based, are expressly enumerated; the terms in which the ratings on each of them may be expressed are specified; the weight to be assigned each such factor or element, and the method of computing the final rating from the ratings on the several factors are minutely predetermined. The rank or order of the employees is then determined by the final rating. This system is open to serious objections. It is to be questioned whether any system of efficiency records, in which the final grades are obtained by averaging the ratings given on specific elements or factors even though such factors have been weighted with specific reference to each particular position or class of service, is to be generally recommended. As applied to large groups of minor employees, particularly those performing routine or standardized operations in which the elements of quality or self-direction are insignificant, and in which work results are readily measurable in terms of quantity, such records are unquestionably practicable but even here the greatest care must be taken in the selections of factors, terms, and weights of rating, if the records are to reflect the actual relative values of the services of the several employees rather than a purely arbitrary appraisal of those values.

For employees at all above this class, where any subtler elements of efficiency become involved, a mechanical system, if not wholly impracticable, is so fraught with difficulty that it should not be applied except for the most substantial of reasons—as to destroy a deeply rooted tradition and practice of political influence in promotion, or the belief in the existence of such a practice.

Probably no one thing has retarded more the adoption by governments of satisfactory efficiency rating systems than the failure to recognize that the problem of working out such a system is special for each character of service or employment. So true is this that it may almost be said that there is need for as many different systems as there are different kinds of services. For this failure, the advocates of civil service reform outside of the government and the civil service commissions of our governing bodies are in so small degree to blame. Too often they have sought to devise a uniform system, the adoption of which should be obligatory upon all services. This phase of the problem has been so exceptionally well handled by Mr. Mayers that we quote him at length. He says<sup>4</sup>.

<sup>4</sup> *Op. cit.*, pp. 323-24.

In considering the problem of devising proper efficiency records for the federal service for use in promotion, and of securing their proper maintenance, it is important at the outset to take note of the notion which is very commonly held with reference to this subject, namely, that uniformity, over the whole service, in methods of rating efficiency is desirable.

So far as experience may be used with confidence to furnish any lessons regarding efficiency records, it has demonstrated the immense difficulty, if not the impossibility, of applying to a large and varied service a uniform system. In most cases where an attempt has been made to cover a large service by a comprehensive system of efficiency records, the central agency, usually the civil service commission, has made the effort to impose upon, or at least to hand down to the whole service a ready made system. A single central body naturally attempts in such an outgiving to apply a single uniform system to the whole service. The almost uniform failure of this procedure seems conclusive proof that the method is wrong in principle.

Failure indeed might have been predicted from the nature of the case. A system of efficiency records, like any other device of personnel administration, or of administration generally, so far as possible, should be indigenous in the soil in which it is to flourish. Concretely, what is needed in so large and varied a service as the federal government is not the imposition from above of a system elaborated in the closet, but the development, by the administrative officers directly concerned in each branch of the service, of a system of records that, in their judgment, meets their peculiar needs. In this development they should have the assistance of a central agency competent to criticize and suggest, and the benefit of co-operation and interchange of suggestion among the officers whose problems are similar or related; but the development, nevertheless, should be from the periphery of the service toward the centre, rather than contrariwise.

It is a source of congratulation that the Congressional Joint Commission on Reclassification of Salaries has appreciated the importance of this matter and has taken substantially the position so ably set forth by Mr. Mayers. It, thus, says in its report:<sup>5</sup>

These systems can be as varied in character as the needs of the different organizations and lines of work require. Obviously no single system can be devised that will

be applicable to the entire service. Moreover, in the present formative stage of efficiency rating systems it is highly desirable that considerable latitude be allowed for experimentation with different systems, even in the same or similar lines of work.

While it should be recognized that the work of devising efficiency rating systems is one that should be performed, in the first instance at least, by the several operating services, this does not mean that the central personnel agency should have no responsibility in respect to the matter. As has been pointed out, administrators have been loath to recognize the possibility of establishing such systems. The central personnel agency can perform a very useful service in overcoming this disinclination to act on the part of service heads. This it can do by assisting these services in working out the technical problem involved and, when necessary, by compelling action. Though this agency should not, except in very unusual cases, itself attempt to prescribe the system to be employed by an operating service and much less to compel the use of a uniform system by all services, it should have authority to see that some satisfactory system is made use of by all services.

Many advocates of the use of efficiency rating systems go beyond this, however, and advocate that the central personnel agency should have power not only to prescribe the system to be used by the operating services, but also to review the ratings developed by such system. This is apparently the position of the Congressional Joint Commission on Reclassification of Salaries, since, after calling attention to the need for different systems to meet the varying needs of the operating services, as set forth in the quotation just given, it says:<sup>6</sup>

At the same time, in order to secure uniformity and to give to each organization the benefit of the experience of others, the general supervision of some central agency is necessary. Full authority to instal efficiency rating systems and to provide for their application should be given to the Civil Service Commission, which would naturally seek the fullest co-operation of the various departments in the promotion of the work. The actual determination of the ratings of individual employees should be left to administrative officers in the organizations concerned, but all ratings should be forwarded to the Civil Service Commission and should be subject to its review and final approval.

It is with this last recommendation that all ratings should be reported to the commission and that it should have final authority

in respect to them that we are inclined to take exception. Our objections to this are twofold: one, the shifting of responsibility from the operating services; and the other, the large amount of labour that would devolve upon both the operating services and the commission in carrying out this requirement. On this point it is believed that Mr. Mayers takes a very sound position when he says:<sup>7</sup>

A question of great importance in devising a system of efficiency rating is that of the provision, if any, that shall be made for the right of employees who believe that their ratings are not fair, to appeal to a superior authority. In seeking to meet this point the designers of certain systems have provided for appellate tribunals having the power to reverse the ratings given by the administrative officer upon appeal by the employee. The character and implications of this system of appeal should be clearly understood.... Its radical defect is that it sets at naught the whole principle of administrative responsibility. For an administrative superior to be placed upon the defensive as against his employee, and for the employee to be the victor, and for the two to continue in the relation of employee and superior is a result to be avoided at all costs. In a correct personnel system, where the employee does not feel that he is receiving justice at the hands of his superior, machinery and procedure should be provided by which such employee may be transferred to another branch of the organization. In due course it will appear whether the employee is one who cannot get along with his superiors or whether the superior is one with whom his employees cannot co-operate, or who does not govern his employees with an equal hand in the matter of promotions, reassignments, and the like. But so long as a given employee remains subordinate to a given superior the employee should not be permitted, except for the very gravest of reasons, to go over the head of his superior officer and obtain an action which his superior has denied.

In conclusion it may be said that, whatever may be the merits of this proposition, it would seem wise, at the outset at least, to restrict the intervention of the commission to that of general responsibility to see that a satisfactory system was employed by all services and not to confer upon it the affirmative powers of prescribing a system and of reviewing the operations until it had

<sup>7</sup>*Op. cit.*, pp. 330-31.

been demonstrated in practice that large powers are necessary in order to secure satisfactory results.<sup>8</sup>

**Work Conditions.** Next to compensation, the factor of most importance to the employee as a worker and to the government as an employer is the determination of the conditions to which employees shall be subject in the performance of their duties. This factor involves such questions as the hours of labour, leave privileges, compensation for overtime work, control of tardiness, medical assistance, physical environment, and the like.

In respect to all these matters the only general principles that can be laid down are that the conditions prescribed shall be reasonable, as far as circumstances permit, uniform, and that they be rigidly enforced. As a general proposition these conditions are more favourable in the government than in private enterprises. There is, however, a general feeling that the government should be what is known as a good employer. It is on the side of enforcement of provisions that governmental conditions are chiefly unsatisfactory. In many cases adequate provision is not made for noting and recording tardiness, unauthorized absence, and leave granted. When such records are not maintained, governments suffer loss and one of the factors in determining efficiency and faithfulness as a basis for making promotions is not secured.

The matter of leave privileges gives rise to certain questions, the most important of which are whether such leave shall be a right

<sup>8</sup>The situation with respect to this matter in the national government is as follows: The Bureau of Efficiency has been authorized to prescribe efficiency rating systems for the administrative services. The Classification Act of 1923 (Section 9) provides:

"That the board shall review and may revise uniform systems of efficiency rating established or to be established for the various grades or classes thereof, which shall set forth the degree of efficiency which shall constitute ground for (a) increase in the rate of compensation for employees who have not attained the maximum rate of the class to which their positions are allocated, (b) continuance at the existing rate of compensation without increase or decrease, (c) decrease in the rate of compensation for employees who at the time are above the minimum rate for the class to which their positions are allocated, and (d) dismissal.

"The head of each department shall rate in accordance with such systems the efficiency of each employee under his control or direction. The current ratings for each grade or class thereof shall be open to inspection by the representatives of the board and by the employees of the department under conditions to be determined by the board after consultation with the department heads.

"Reductions in compensation and dismissals for inefficiency shall be made by heads of departments in all cases whenever the efficiency ratings warrant, as provided herein, subject to the approval of the board.

"The board may require that one copy of such current ratings shall be transmitted to and kept on file with the board."

to which the employees are entitled as a part of their labour contract or merely a privilege to be granted or not as the superior may decide; the extent to which such leave shall be cumulative, that is, if not taken in one year may be carried over and taken in succeeding years; and the precautions that shall be taken to prevent the abuse of sick leave. On the basis of considerable practical experience, both as an officer and an employee of the national government, it is the opinion of the writer that annual leave should be deemed to be a right, though the particular time at which it is taken should be within the control of the head of the office, it being presumed that the wishes of the employee will be consulted when the interests of the service permit. Normally, annual leave should be taken during the year in which it occurs, though some discretion should be granted to the head of service to permit its accumulation within restricted limits. On the other hand, leave on account of sickness should normally be subject to accrual up to a fixed number of days. Unless this is done the cases of severe illness involving an enforced absence from work for a long period will not be properly met. Incidentally, the grant of this right of accumulation provides a strong incentive against the abuse of the privilege for minor illnesses, the employees desiring to accumulate a considerable sick leave as an insurance against cases of severe illness. It is of interest to note that such studies as have been made indicate that the right to sick leave is not generally abused. There are, of course, exceptions to this in individual cases.

As a general proportion governments do not provide for additional compensation for overtime work. This is not open to criticism, since the ordinary working hours are usually shorter than those obtaining in private enterprises and overtime work is not often resorted to. One method of meeting the cases that do arise is the grant of a corresponding extension of the annual leave privilege.

**Records and Statistics.** A matter that has received far less attention than its importance deserves is that of the maintenance of proper records of personnel and the compilation from those records of statistics showing the number of employees, classified according to such criteria as sex, age, compensation, length of service, etc. From the individual standpoint it is often desirable to know the entire service record of an employee, the position filled, the changes in compensation, the date when first employed, etc. From the general standpoint statistics of all employees that will reveal their number, rates of compensation, length of service, etc., classified by sex, age periods, etc., furnish exceedingly valuable social data. With a development of retirement system such data are absolutely essential for a proper working of the system.

## CHAPTER XXII

### ORGANIZATION FOR PERSONNEL ADMINISTRATION

No one can read the preceding chapter, or for that matter any volume dealing in a broad way with the work of devising a system of personnel administration that will meet the needs of a government having in its service any considerable number of employees, without being impressed with the complexity of the problem and the difficulties to be overcome in its practical solution. It must be equally clear that if these difficulties are to be surmounted, provision must be made for the organization of special services to have as their function the handling of all matters dealing with personnel administration. These services are of two kinds: divisions of personnel administration in the operating departments or services, and a central personnel agency.

**Organization and Work of Divisions of Personnel Administration.** The variety of work that has to be performed in the actual administration of a personnel system has been abundantly shown. It consists of the execution of the various papers having to do with the making of requisitions for additional personnel, the writing of letters of appointment, transfers, promotions, etc., the keeping of service records showing the dates of appointments, changes in compensation, transfers, leave granted, action taken on complaints regarding the work of employees, and all other matters affecting the personal records of the employees; the maintenance of the records showing the operations of such efficiency record systems as may be maintained; and such other general records in the form of lists, outlines of organization, and charts as will show at a glance the exact position of each employee in the organization, his compensation, etc. In a small organization embracing only a comparatively few employees these duties may be performed by some general officer, such as, in the case of the national government, the chief clerk. Immediately upon a service reaching any size it becomes necessary to entrust this work to a special officer and to give to him such assistance in the form of clerical and other help as the circumstances of each case may require. To such a service we have here given the general designation of "Division of Personnel Administration."

In the preceding paragraph a general characterization has been given of only those duties of a division of personnel administration that are of a purely formal or routine nature. Throughout our study, the effort has been made to emphasize the point that there is



scarcely a feature of personnel administration that does not involve the factor of personal judgment and to a greater or less extent the exercise of personal discretion. It is of the highest importance, therefore, that the duties of the chief of the division of personnel administration should extend far beyond the performance of these routine operations. Upon him should rest the responsibility of seeing that the procedure employed in handling personnel matters is the best that can be devised, of familiarizing himself with the personnel needs of the services, of determining, through personal contact and consultation with those in charge of the work of others, the special qualifications or failings of individual employees, of adjusting complaints made by, or of, employees, etc. He should, in a word, be the right-hand man of the head of the service, or his chief adviser, in assisting the latter in the exercise of his discretionary powers in respect to personnel. Upon him should, therefore, rest direct responsibility for the efficiency of the whole personnel system of the service.

In the discharge of his obligation, it is to be noted that the chief personnel officer enjoys two marked advantages over the directing heads of personnel. The first is that he stands outside of the active operations proper of the service and is thus able to take an objective and unbiased view of all personnel matters. The second is that his responsibility extends over the whole service and he can thus weigh the recommendations of operative chiefs where they are not in accord, adjust differences arising between such officers, and formulate recommendations having in view the general interests of the services rather than those of a particular branch or subdivision.

Emphasis is placed upon this description of the proper duties of a division of personnel administration, since it is one that is realized to so slight an extent in most of the services of the national government and probably in most of those of our state and municipal governments. In each of the executive departments and independent establishments, and in many of the subordinate bureaus of the national government, there is an officer known as "appointment clerk." The title of this officer indicates the narrow conception of the duties of the office held by him. For the most part they, in fact, consist of little more than attending to the routine work required in the keeping of personnel records and in attending to the correspondence in connection with the recruitment and change in service status of personnel. The explanation of this condition of affairs is found in the fact that the creation of this office took place long before the rise of the modern conception of the nature and importance of what is known as employment management. What is urgently required in the national government is the development

of this office into a real personnel division, having full responsibility for all matters pertaining to personnel management. In making this change it is desirable that the name of the office should be changed from that of appointment clerk to "division of personnel" in order that the enlarged scope of its duties may be better emphasized.<sup>1</sup>

A question that is presented in connection with this office is as to whether each bureau should have its division of personnel or whether there should be a single division exercising jurisdiction over all the bureaus within a department. In respect to this no general rule can be laid down. Though the presumption in respect to all of these institutional services is in favour of the establishment of central offices with broad jurisdiction, it must be recognized that there are bureaus whose operations are so distinct and on such an extensive scale that it is advantageous that they should have their own services of this character. Whenever, due to these considerations, there exists within the same department a number of divisions of personnel it is hardly necessary to say that they should work in close co-operation and seek as far as circumstances warrant to make use of similar standards and methods of administration. When a bureau does not have its own personnel division, the duties of that office can in most cases be most advantageously performed by the chief clerk.

**Organization and Work of a Central Personnel Agency.** No fact regarding the problem of public personnel administration has been more thoroughly established than that a satisfactory personnel system can be secured only where provision is made for some central agency that will have general responsibility for taking the lead in the devising of this system and subsequently exercising such an oversight of its operations as will enable it to assure itself that the principles underlying that system are being effectively put into practice. The necessity for such an agency is due to a number of reasons.

In the first place, experience has demonstrated that sole reliance cannot be placed, upon the operating services to adopt the more approved methods of performing their institutional business operations. Whether it is due to the fact that they do not possess the requisite technical knowledge, or that their attention is so taken up with the performance of their primary duties, or that they naturally prefer to continue to do as they have been accustomed, the fact is that operating services in most cases do not, as a rule, spontaneously work out new and improved methods

<sup>1</sup> In the last few years, indeed, divisions so designated have been set up in the Department of Agriculture, the Bureau of Internal Revenue, the Civil Service Commission, and the Veterans' Bureau in the national government,

for the performance of their institutional duties. In governments, at least, there seems to be a need for agencies of outside of the operating services that will directly concern themselves with matters of institutional organization and procedure, who will make the necessary studies of the problems involved, inform themselves of practices elsewhere, determine the character of system best adapted to the governments of which they are parts, and seek to have such systems practically applied by the operating services.

Secondly, it has been abundantly shown that the problem of personnel administration is an exceedingly complicated and technical one. Its solution can only be arrived at after careful study by specially qualified experts. Even were it possible for the operating services to make such studies, it would be uneconomical for a large number of services to be engaged upon a work that can be better done by a single strong service.

Finally, and in some respects most important of all, there is the fact that the problem of personnel is not one that concerns the operating services only individually. Not only does it embrace a number of factors, such as those of transfers from one service to another and of setting up broad areas within which promotions may be made, but there is the essential desideratum that as far as circumstances will permit, employment conditions and practices shall be uniform throughout the government. Such conditions as these can only be met by an agency whose jurisdiction is correspondingly broad.

**Functions of a Central Personnel Agency.** If it be accepted that provision should be made in every government for a central personnel agency, the problem is then presented of determining the functions that should be entrusted to it. Analysis of the work of agencies of this character now in existence, which in practically all cases have taken the form and name of civil service commissions, shows that the more important functions that have been entrusted to them are those of:

1. Exercising general responsibility for the establishment and maintenance of an efficient personnel system.
2. Drafting and promulgating orders having for their purpose to supplement and put into force provisions of law governing the selection and handling of personnel.
3. Working out and prescribing a standard classification of positions, salaries, and service titles; or, if this work is done in the first instance by a specially created agency, keeping this system revised to date.
4. Serving as a supply service for the recruitment of personnel.

5. Serving as a central office of personnel records.
6. Supervising and controlling, within limits, the personnel system that is established.

**General Responsibility for the Personnel System.** At the head of the functions of a central personnel agency should be placed that of its general responsibility for seeing that throughout the government of which it is a part, all matters having to do with personnel management are handled with a maximum of efficiency. As will later appear, this does not necessarily mean that it should have authority to prescribe the system to be established and much less subsequently to control in all respects its operations, but merely that it should have the duty; first, of determining for itself the fundamental principles upon which such a system should rest and the means through which such principles can be put into execution; and, secondly, of using its best efforts to see that these principles are recognized and acted upon by those having direct responsibility for the selection and direction of the working force. Its duties, in a word, from this standpoint should be those of a staff agency, the nature and functions of which have been described in Part I, dealing with problems of organization.

It is necessary to emphasize this function of a central staff agency, since, unfortunately, it is one which has been but slightly recognized in the past. Historically, almost all central personnel agencies, as represented by the civil service commissions in our national, state, and local governments, have been established, not primarily as agencies through which greater efficiency in personnel matters might be secured, but as means through which the appointing power might be controlled with a view to preventing them from being improperly influence by a personnel and political considerations in making appointments, promotions and dismissals of their personnel. Due to this, neither have the laws providing for the creation of these bodies, except in rare cases, directly imposed this responsibility upon them nor have the commissions themselves made any adequate effort to secure such powers or to exercise those which they did have. For this our legislative bodies and the commissions are only partly to blame. The whole movement for efficiency in personnel administration in the modern sense is comparatively a recent phenomenon, and post-dates the creation of most civil service commissions. This excuse, however, has now passed away. Nothing in respect of this branch of public administration is, therefore, more needed than a thorough recasting of the organic acts under which these bodies operate so as to confer upon them this general staff-function responsibility, and a complete change of front by the commissions themselves regarding their primary function.

In considering this matter, it is important to note that the opposition encountered by civil service commissions has not come wholly from the politicians. To no small extent it has had to meet that of the heads of operating services who have failed to see the advantage of changes proposed or ordered and have chafed against any limitations placed upon their powers. There can be little question that, if the commissions had, as a matter of careful research, worked out the systems that should be employed and then sought to bring home to the operating services the advantages of such systems, great progress could have been achieved in attaining the end sought without resort to the exercise of any compulsory powers. To do this, two things are necessary: first, that the commissions shall establish themselves in the confidence of the operating services as technically competent bodies; and second, that in elaborating their plans they shall work in close co-operation with these services so that their proposals may meet the special needs of those bodies and be recognized by them as practical and desirable.

In conclusion it should be said that, whatever may be the specific duties and powers conferred upon the central agency, it should have the broad responsibility of prosecuting inquiries into the personnel needs of the government and of seeking to bring home to those having responsibility for action, both in the legislative and administrative branches, the desirability of taking the steps which its studies have shown to be necessary in order to improve personnel conditions.

### **Drafting and Promulgation of Personnel Regulations.**

With few exceptions, where conditions to be observed need to be prescribed in detail, it is desirable that the legislature shall limit its action to the setting forth in statute of the general principles and delegate to some subordinate agency the duty of formulating and promulgating the detailed regulations required in order to put these general principles into application. Especially is this true in respect of matters of administrative procedure. The advantages of this policy are: the relief of the legislature from a burden of work for the performance of which it is apt to have neither time nor any special competence; the vesting of responsibility for the determination of details in a body that has such competence; and the securing of flexibility through the fact that regulations made by an administrative or quasi-administrative body can be changed with greater ease than provision of formal acts of legislation. It is desirable, therefore, that the legislature should make use of the central personnel agency for the formulation of regulations required to amplify and apply the laws passed by it relative to personnel matters. In most cases this is the policy that has been pursued. In the case of the national government the regulation-framing and

promulgating power has been conferred upon the President, the Civil Service Commission acting merely as an agency of the latter in formulating the regulations to be issued. This places legal responsibility for this branch of public administration squarely upon the President as head of the administration.

**Classification and Standardization of Positions, Compensation, and Service Titles.** The necessity for a classification and standardization of positions, the writing of the job specifications for these positions, the determination of the compensation rates that should attach to these positions, and the adoption of a uniform scheme of service titles has been shown in our chapter dealing with this subject. If the central personnel agency has the technical competence and resources to do this work, it is the agency to which it should be entrusted. If not, the work can best be done by an organization specially created for the purpose. Whichever the procedure employed, after the work is done, it becomes one of the primary duties of the central personnel agency to the work necessary to keep the system revised to date and to supervise and enforce its operation.

**Supply Service or Central Recruitment Agency.** Turning from these staff-agency and quasi-legislative functions, the most important administrative duty of a central personnel agency is that of acting as a central supply service for the personnel needed by the operating services. In this field its functions are precisely analogous to those of a central supply service for material. The arguments in favour of having personnel recruited through a central service rest upon the same grounds as those leading to the creation of other central supply services, namely, that such a service can do the work more efficiently and economically than can the operating services acting individually. Of this there can be no doubt. The advantages of the central system are threefold: the economy secured through having a single agency, instead of a number of agencies, operating in the same field, the greater facility that a strong agency has for securing competent eligibles, and the relief of the operating services from a considerable burden of work, thus permitting them to concentrate their energies more largely upon their primary functions. Under this system all that the operating services have to do is to make known their needs to the central agency by filing requisitions for such and such classes of employees. Since the personnel needs of the operating services are known in advance and the central agency has through its examinations or other tests secured a list of eligibles, these requisitions can for the most part be filled immediately. Anyone who has had the direction of even a small enterprise can appreciate the saving that is thereby secured in his own time and

energies. No better demonstration is needed of this than the fact that it is not at all unusual for services of the national government, which are not obliged by law to do so, voluntarily to ask the Civil Service Commission to recruit for them important classes of their personnel.<sup>2</sup>

**Central Office of Personnel Records.** Only a few words are needed regarding the function of a central personnel agency as a central office of personnel records, since this duty has already been fully handled in our consideration of the need for personnel records and statistics. It remains to be said that occasion constantly arises where it is desirable to know the service records kept in one place, since many employees have had service in more than one department or bureau. Such a centralization of data is especially necessary when action is contemplated looking to the establishment or modification of a retirement pension system. Finally, it is only by the possession of such records that a central agency can efficiently perform its other duties. In a way, therefore, the keeping of these records may be deemed to be a necessary collateral service and the data afforded a by-product of the other work of the central agency.

### **Supervision and Control Over Personnel Administration.**

The propriety of entrusting the five functions that have been considered to a central personnel agency is generally recognized and in practice gives rise to few facilities. The question of the extent to which such an agency in addition to these functions, should have that of controlling the operating services in the handling of their personnel matters is, however, one regarding which great differences of opinion exist and which present many problems difficult of solution. It was in regard to this matter that the Conference Committee on the Merit System, which embraced representatives from all of the leading organizations of the country interested in the subject of public personnel administration, had the greatest difficulty in reaching an agreement. This committee in its report said:<sup>3</sup>

The personnel agency has certain functions to perform with regard to the regulation of employees who are in the classified service, but there is no general agreement as to the exact part it should take and its relations to employees and to administrative officers in departments. The handling of transfers, the granting of leaves of absence, the development and administration of service (efficiency) standards

<sup>2</sup>See Mayers, *The Federal Service*, pp. 447-51.

<sup>3</sup>The Merit System in Government, p. 43.

and ratings, the working out of training courses, the bringing about and control of demotions, the regulation of working hours and the checking of the attendance of employees all present baffling problems which are not likely to be solved for any considerable part of the service without the close co-operation of the personnel agency, the appointing authorities and the employees themselves. Neither public nor private personnel administrators have been able to discover just what part they should take in these transactions and a great deal of experimental work remains to be done.

Intervention in the administration of personnel systems by central personnel agencies for the most part takes the form of those bodies acting directly as organs for the handling of certain features of personnel administration; as organs of review for the hearing and decision of appeals from the action of administrative officers; or as bodies having the authority to grant exemptions from the provisions of general rules. The matters in respect to which an issue is chiefly raised are those of determining service ratings and making promotions, demotions, and dismissals. There are some who go to the extreme of holding that the power to act in reference to these matters should be vested directly in the central personnel agency. Others hold that intervention by the central agency should be limited to that of passing upon and revising the action of those directly in charge of the operating service. This was the position of the Congressional Joint Commission of Reclassification of Salaries. In its report it recommended that all efficiency ratings "be forwarded to the Civil Service Commission for review and final approval"; that "employees who fail to attain a fair standard of efficiency as prescribed by the Civil Service Commission be removed from the service after suitable opportunity for appeal to the commission," and that "the transfers, lay-offs, reinstatements, demotions, dismissals, suspensions and other employment matters be regulated in accordance with a uniform employment policy and in conformity with the spirit of this chapter, and that employees have the right to appeal to the Civil Service Commission in all matters coming under its jurisdiction."

Another school of thought questions very much the advisability of vesting final responsibility for action in respect to the most important features of personnel administration in a body which does not have direct charge of, and responsibility for, the work of employees. It holds that the responsibility of the central agency should be limited to that of exercising a general supervision over personnel administration with a view to determining and making known the extent to which the operating services are making use of proper methods and are seeking to carry out the provisions of



law and regulations in good faith. To this end it advocates that the operating services should be required, on demand, or as a regular matter of routine, to report to the central agency their action in respect to transfers, promotions, demotions, dismissals, etc., together with a statement, of the grounds upon which action was taken and that employees believing themselves to be improperly injured by such action should be given a like opportunity to state their grounds of complaint, but that the action of the central agency should stop at the point of receiving, considering, and making in its reports such comments on this action of the operating services as it deems proper.

As between these schools, the present writer strongly adheres to the latter. His reasons for doing so have been stated in his consideration of the particular problems of personnel administration, but may be briefly recapitulated here. First and most important, the vesting of final authority in respect to these most important features of personnel administration in a central agency means a division of responsibility which is always to be avoided if possible. Secondly, and as a necessary consequence of this, it greatly weakens the control of administrative heads over their employees. Thirdly, it tends to discourage these officers in making those demotions and dismissals which the good of the service demands. It has been pointed out that the problem of getting rid of incompetent or misfit employees is almost as important as that of securing satisfactory recruits. If an administrative officer has got to get the approval of a superior authority before he acts, or, if his action will mean that in many cases he will have a fight on his hands where he has to justify himself, he will simply take the easier way of doing nothing. Finally, such a system greatly complicates the work of administration and imposes a very considerable burden of work upon both the administrative services and the central agency.

Speaking more generally, it is believed that adherents of the first school are still dominated to too great an extent by the original idea leading to the establishment of civil service commissions, that of controlling the appointing power with a view to the elimination of political evils rather than that of acting as an agency through which to secure increased efficiency in operation. It is believed that with the firm establishment of the merit system in respect to the recruitment of personnel, the careful classification of personnel, and the use of means for determining efficiency in the performance of work, much of the danger to be avoided will pass away without the necessity for the exercise of further powers of direct control in the field of administration proper. It is, furthermore, to be noted that the requirement that administrative officer shall report their action to the central agency, that employees believing that they have been unjustly treated may state their cases to the

central agency, and that the latter may in its reports comment upon the manner in which the heads of operating services are administering personnel laws and regulations, furnishes a powerful moral check upon improper action. Only when control in this way has, after thorough trial, been found to be inadequate is it believed that resort should be had to direct legal control.

**Organization of a Central Personnel Agency.** In practice the form of organization of a central personnel agency that has been almost universally adopted has been that of a commission of three or more members, sometimes elected but more usually appointed by the chief executive. Within recent years it has, however, been seriously questioned whether this is the most desirable form of organization.

The two features chiefly questioned are the status of the agency; whether it shall be deemed to be one standing outside of the administration and responsible primarily to the legislature or directly to the people, or a part of the administration and as such an agency acting for and primarily responsible to the chief executive and whether the agency should not have the bureau form of organization with a single officer at its head instead of that of a commission or board. These two questions, though distinct, are intimately related, since those advocating the bureau form of organization usually, if not invariably, hold that the bureau should be a part of the administration, while those supporting the commission form believe that the primary function of the agency should be to control the administration and thus have a status independent of it.

This difference of opinion arises from the mixed character of the functions usually conferred upon the agency. These functions, as has been pointed out, are partly quasi-legislative, partly control and partly purely administrative. As the possessor of quasi-legislative functions and that of controlling the administration as a whole, including the chief executive himself, with a view to preventing the latter from missing his powers of appointment and dismissal of employees and directing action affecting personnel by his administrative subordinates, it is clearly logical that the agency should have a status and exercise its powers independent of the chief executive and administrative officers. As an organ to perform purely administrative duties, it is equally clear that the agency should be a part of the administration. As the Conference Committee on the Merit System, in its reports, says:

They (*i. e.*, those advocating the administrative bureau form of organization) point out that the present trend in city and state government is strongly toward the centralization of administrative control under a single executive and that such centralization is unquestionably bringing about greater

effectiveness in the administrative branch of the various government agencies. They hold that the attempt to take control of personnel administration away from the chief executive and to put it into the hands of a separate body is a mistake. The proper degree of co-operation between the chief executive and the appointing authorities on the one hand and those responsible for personnel management on the other can be assured, they believe, only if the chief executive has the same power in appointing and removing the personnel body as he has in the case of other department heads.

In a word, if we are to adhere to the principle, now generally endorsed, that the chief executive should be held responsible for the efficient conduct of public affairs, he should have the same powers in respect to this most important phase of administration that he has in respect to other phases.

It is evident that we have here a conflict of considerations. Whether one type of organization or the other is preferred, will depend largely upon the emphasis given to the different functions of the central agency. It has been pointed out that at the outset of the movement for civil service reform, the object chiefly, if not exclusively, sought was the abolition of the spoils system to be secured by restricting the powers of the chief executive and administrative officers so as to prevent them from being controlled by personal and political considerations in making appointments and removals or from using the services of employees for the advancement of the interests of the political parties to which they belonged. So long as this was the dominant motive, it was but logical and proper that the agency through which this control was to be exercised should be given an independent status and powers. The adoption of the commission form of organization was dictated in large degree by the belief that independence of political pressure could best be secured by providing for a body of men which should embrace representatives of the major parties and by providing for overlapping terms of office so that no one executive could control the entire membership of the commission. Within recent years the whole tendency has been to throw the greater emphasis upon the purely administrative tasks of recruiting personnel, the working out and the operation of a scientific classification and standardization of positions, compensation, and titles, the devising and operating of service or efficiency rating systems, and the like. With this change in attitude it may well be that the time has arrived to change the type of organization and its status so as better to meet these conditions.

There is, of course, another method of meeting these conflicting considerations; namely, that of doing away with the existing prac-

tice of vesting in the same agency both administrative and quasi-legislative or general control functions and of creating, instead, two agencies, one to perform all purely administrative duties and the other to have general control from the legislative or public standpoint. This could be done by relieving the existing civil service commission of all of their purely administrative duties and vesting them in a single personnel bureau having the same status within the administration as the bureau of supplies or central purchasing agency.

Action along this line has been stated with such clearness by Mr. Mayers that we feel justified in reproducing at some considerable length his discussion of the subject. He says:<sup>4</sup>

The functions pertaining to a central administrative agency fall into two distinct categories: those having for their purpose to assist the several operating services in meeting their personal needs and those having for their purpose to supervise and control such services in the practical work of handling their personnel. As a recruiting agency the central service is nothing more than a supply service, one having for its duty to supply the personnel needed by the several operating services. As a supervisory and controlling agency its function is to see that the operating services organize and operate proper systems for ensuring efficiency on the part of their personnel, determining on a merit basis assignments, increases of salaries, promotions, transfers, and the like, and that those in authority are not actuated by improper motives in handling these matters.

It is elementary that two distinct functions, particularly when the ends in view are of a diverse character, should never be combined in the same organization unless a positive case for so doing can be made out. It is evident in the present case that the attempt by the same organization to perform both of the functions that have been mentioned presents serious difficulties in respect to the effectiveness with which each may be performed. Where the promotive or assisting function, as represented by the recruitment of personnel, is carried on by the same agency that also carries on the regulatory work, it is difficult for the departments to assume toward that agency a wholly co-operative attitude. That this result actually has ensued in the case of the Civil Service Commission is hardly open to doubt. Generally speaking, the departments are inclined to regard the latter as a restrictive rather than a co-operative or service

<sup>4</sup> *Op. cit.*, pp. 536, 540.

agency. The divorce of the recruiting function from the regulatory function would thus make it far easier for the central recruiting agency to develop a truly co-operative attitude toward itself on the part of the departments.

In view of the foregoing the question is presented whether the present system of vesting both assisting and controlling functions in respect to personnel matters in a single agency, the Civil Service Commission, is not fundamentally wrong, and whether better result could not be secured by making provision for two agencies, one to concern itself wholly with recruitment and the other with matters of general supervision and control.

Even from the standpoint of the work itself, regardless of departmental relations, the independent organization of the recruiting work has a high value. From the standpoint of volume of work and of the force required, the recruiting work of the central agency is almost invariably far greater than the regulatory work. This has been particularly so in the case of the Civil Service Commission because its regulatory functions have been left comparatively undeveloped, while on the recruiting side it has occupied almost the whole of its possible field. But even with a much fuller development of its regulatory functions they would still be considerably less important from the standpoint of volume alone than the recruiting function. The natural result of this situation is that the attention which must be given to the recruiting work by those in charge of the central agency militates against the fullest development of the regulatory functions and against their most efficient administration. An agency devoted exclusively to regulatory work and relieved from all responsibility of recruiting work would be able far more effectively and adequately to exercise the powers of regulation entrusted to it.

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If the recruitment system be thus independently organized, there would seem to be no need of placing it in the hands of a board. The function of recruitment is a purely technical one. A single commissioner, who would discharge substantially the same functions that are now discharged by the Chief Examiner of the Civil Service Commission, but with far higher standing and prestige, on general principles, would be more effective than a board.

The work of the regulatory authority, on the other hand is judicial. It affects in an important way the rights and fortunes of individual employees and prescribes the regu-

lations by which its own and departmental action in matters coming under its jurisdiction shall be guided. It necessarily excises, moreover, powers of a legislative character. It is on all accounts proper, therefore, that a board of at least three be provided for the purpose. In view of the importance of the decisions to be made, it would possibly be better to have a larger board than three.

**Relation of Central Personnel Agency to Other Organs of General Administration.** There are a number of other questions having to do with the organization and work of a central personnel agency which, in the case of the actual drafting of a law providing for such a body, would have to be considered. Among these are such matters as the size of the commission, the qualifications required of members, the manner of their selections, the terms of their offices, etc. It would take us too far afield to attempt to discuss in any detail these points.<sup>5</sup> One other feature is, however, of such general importance that it should not be passed over; the relationship that should exist between the central personnel agency and the other organs of general administration or supply.

Throughout our study the importance of distinguishing clearly between operating services and those having for their function to minister to the needs of these services through the performance of the function of staff agencies, supply services, or organs of general administration, supervision, and control has been emphasized. As has been pointed out in our consideration of problems of organization these latter services can be organized in two ways: as independent co-ordinate agencies, each having its relations directly with the chief executive or general manager, on the one hand, and with the operating services on the other, or as subdivisions of the bureau of general administration. Which of these systems of organization is adopted, will determine the status of the central personnel agency and its relation to the chief executive, his bureau of general administration, and the other supply services.

On general grounds the present writer favours the latter form of organization. No feature of administration is more fundamental than that of placing final responsibility for the conduct of administrative affairs upon the chief executive. The agency through which he discharges this responsibility is his bureau of general administration. It would seem to be both logical and in the interests of efficiency, therefore, if the several supply services and those having the function of general supervision and control should be brought under the direct authority of this bureau by being made

<sup>5</sup>A valuable discussion of this question is to be found in the report of the Conference Committee on the Merit System, "Our Merit System in Government," 1926.

subdivisions of it. Though this is the form of organization toward which efforts should be directed, it is probable that, as a matter of expediency, the co-ordination of these supply and general administration services under the bureau of general administration should not be attempted until the special problems connected with the organization and determination of the functions and procedure of each of these services individually considered had been substantially solved. This done, it would be a matter of comparative ease to bring them together into a single integrated service of general administration. The policy to be pursued is, thus, largely dependent upon the extent to which a government is prepared to take radical action in the way of perfecting its organization and administrative procedure.

**Association of Central Personnel Agencies.** It is evident that problems of a central personnel agency are largely identical in all of our governments, national, state, and local. It is highly desirable, therefore, that these agencies should effect an organization through which they can discuss their common problems and, when feasible, adopt uniform practices and methods of procedure. Probably the most striking instance of the advantages that would result from the establishment of co-operative relations are to be found in the field of classification of personnel and the framing of recruitment examinations or tests. Not only is there a great waste of effort and money in each agency independently performing the labour involved in working out a scheme of classification and in writing the detailed specifications for the positions provided for but it would be very advantageous to have such schemes, or, at least, the detailed position specifications, as far as possible, standardized. In like manner there would be an economy and saving of effort if common agreement could be reached in respect to the character of tests that should be employed in recruiting eligibles for the different positions, the relative weights to be given to the different factors entering into these tests, etc. Finally, it is more than possible that economy in operation could be secured through the several agencies making use of each other's facilities for the holding of examinations and in other ways.

The desirability of such an organization has been recognized, and there is now in existence a body known as the Assembly of Civil Service Commissions, which meets annually for the consideration of problems with which the civil service commissions have to deal. Largely, on the initiative of this organization, there was created, in 1923, a Bureau of Public Personnel Administration, with headquarters at Washington, D. C., which acts, in effect, as a technical research agency and central bureau of information for the commissions and all other bodies having to

do with matters of personnel administration. At the outset, this bureau was attached to the Institute of Government Research and operated under its general direction. Since July 1, 1926, it has, however, functioned as an independent body. The results of the studies of this organization are published in a monthly entitled "Public Personnel Studies."



## CHAPTER XXIII

### EMPLOYEES' ORGANIZATIONS

Recent years have witnessed the development in private industries in the United States and other countries of a movement for the establishment of the principle of employees' participation in the personnel systems to which they belong. This radical change in past practice is defended upon two grounds; first, the moral one, that it is only proper that employees should exercise a voice in determining the conditions under which they are to labour and second, the practical one, that such a system will produce better results, through the stimulation of the interest of employees in their work and through the aid that such participation can give in the prevention of abuses on the part of the appointing power. Closely connected with this question is that of the right of employees to form organizations and of the function of such bodies in the determination of the employment contract and of operations under that contract, since the only way in which employees as a body can participate in employment management is through their effecting organizations for that purpose.

It was inevitable that this movement should enter the field of public as well as private employment. There has, thus, arisen the important question of the extent to which governments should recognize the right of their employees to form organizations concerned with employment conditions, and if such right is recognized, the extent to which their intervention or co-operation will be permitted in the handling of personnel matters. This question, it need hardly be said, is one of no little complexity and involves considerations concerning which it is not easy to take a definite stand. The best that can be done at the present time is, therefore, to attempt to make known the nature of these considerations and to draw such conclusions as present experience would seem to warrant.

**Employment Relations between a Government and its Personnel.** As regards the general principle involved, attention at the outset should be drawn to the fact that the nature of the employment relation between a government and its employee is or up to the present time at least, has been, quite different from that obtaining in private industry. In the latter this relation is that of a contract, the terms of which, in theory at least, have been fixed by mutual agreement. In a government such a condition can hardly be said to obtain. Here, employment conditions are fixed by statute,

or by administrative order issued in pursuance of statutory authorization, and the means securing changes in such conditions is normally through political action.

**Proper Functions of Employees’ Organizations.** Secondly, it should be noted, that there is a fundamental distinction between the fixing of the conditions of employment and the actual work of administering the system that may be established. Put in the form of interrogatories, these considerations, therefore, give rise to the following questions: Shall government employees be permitted to form organizations concerned either with the determination of employment conditions or with the operations of personnel administration? If permitted, what shall be the means of action open to those organizations and, particularly, shall they be permitted to make use of a concerted cessation from work or a strike in order to enforce their demands or affiliate themselves with other organizations making use of this weapon? To what extent, if any, shall these organizations engage in political activities having for their purpose to promote the election of representatives or officers favourable to their demands or the defeat of those opposed to them? Shall they be permitted to engage in operations of a lobbying character having for their purpose to promote the enactment of legislation believed to be favourable to their interests or the defeat of measures of which they disapprove? Shall their participation in the actual work of personnel administration be sought or permitted, and, if so, shall such participation be provided for by statute or administrative order, or shall it be merely a matter of informal arrangement between administrative officers and the organizations?

As regards the first question there can, it is believed, be little doubt that the answer should be in the affirmative. Apart from any question of right, there are many advantages in having employees effect organizations for the examination of all phases of personnel administration with a view to determining wherein the systems under which they are working are unsatisfactory and the means that should be taken to correct these conditions. With respect to most of the more important features of a personnel system, such as the establishment and enforcement of the merit system, the establishment and operation of a just efficiency rating and promotion system, the classification of positions according to their relative importance, the adjustment of compensation to work, etc., the interests of the government and the employees are identical. In the actual administration of these systems, also, employees are in a position to see defects or the abuse of power by the directing personnel that those in general authority often cannot so well discover. If organized and conducted upon a proper basis employees’ organizations can thus render a real service in the working out of proper personnel systems and their subsequent operation.

**Proper Means of Action of Employees' Organizations.** As regards those questions pertaining to the means that may be legitimately employed by employees' organizations in furthering their purpose, it would seem to be not only proper, but desirable that they should seek to make known to the legislative branch their position in respect to legislation proposed or desired having to do with personnel matters. This should preferably be done openly through the preparation of briefs or arguments, the giving of testimony at hearings on pending measures, the publication of a journal, etc. Any attempt on their part, or by their members individually, to exert pressure upon the legislature through engaging in political activities having for their purpose to promote the election of representatives favourable, or the defeat of those antagonistic, to their demands, on the other hand, can only be condemned. If there were any doubt about this, the experience of England would be conclusive. Notwithstanding the high traditions of the civil service, the political activities of government employees in the so-called dockyard districts were such as to give to the members of parliament representing these districts the designation of "dockyard members."<sup>1</sup> If such activities were permitted, the rapid growth in the number of government employees would produce a political problem of the first magnitude.<sup>2</sup>

In like manner there can be no question that it is highly undesirable for employees' organizations to make use of the strike as a weapon for enforcing their demands. It has already been pointed out that the public service differs radically from private enterprises in that the employment relationship is one of statutory determination instead of contract, and that the proper means of action is political, that is, through the employment of the recognized methods of political action. Apart from this, the factor of the general welfare enters into the question to an extent that it does not in private undertakings. If the position here stated is accepted it would seem to follow that it is preferable that employees' organizations should not affiliate themselves with outside organizations, and particularly should refrain from joining forces with organi-

<sup>1</sup>A. Lawrence Lowell, *The Government of England*, vol. II, pp. 149-53.

<sup>2</sup>"In Victoria the political power of the organized workers on the state railways became so pronounced and threatened so continuous an increase that the constitution of the province was amended so as to deprive all civil servants, including the railway employees, of their rights of general suffrage, substituting therefor the right to elect a fixed number of members who would be officially recognized as representing the interests of the Civil Service." Mayers, *The Federal Service*, p. 545.

zations making use of the strike as one of their weapons of warfare.<sup>3</sup>

With respect to all these matters that have been considered, the situation in the United States, and specially in respect to the national government, may be said to be fairly satisfactory. A large number of organizations have been effected by federal employees. Of these, the most important is the National Federation of Federal Employees. That this organization has taken the proper stand in respect to its function and means of action, is shown by the following extracts from its constitution as revised at its fifth annual convention in 1921. Its preamble reads:

With a view to the betterment of the Federal Service in general, and for the promotion of the common welfare of government employees through co-operation and organization, we, a National Federation formed of such employees, adopt this constitution.

Article II, headed "Objects and Methods," reads:

Section 1. The objects of this Federation shall be to advance the social and economic welfare and education of the employees of the United States and to aid in the perfection of systems that will make for greater efficiency in the various services of the United States.

Section 2. The methods for attaining these objects shall be by petition to Congress, by creating and fostering sentiment favourable to proposed reforms, by co-operation with government officials and employees, by legislation and other lawful means: Provided, that under no circumstances shall this Federation engage in or support strikes against the United States Government.

Section 3. With a view of co-ordinating the energies and influence of all Federal employees in support of our aims, we strongly urge them and all national organizations of

<sup>3</sup>The matter of individual employees of governments joining outside labour organizations raises considerations of quite a different character. In their industrial establishments, such as the Government Printing Office, arsenals, shipyards, etc., governments employ large numbers of workers of the same class as those employed in private establishments. Many of these have been members of the unions for their trades before entering the government service. It is more than an open question whether they should be compelled to drop their membership in such organizations upon taking service for a government or be prevented from joining forces with their fellow craftsmen in seeking to promote the interests of their crafts. That they should participate in a general strike to enforce demands relative to conditions in outside establishments, would, however, seem to be manifestly improper.

government employees to affiliate to the American Federation of Labour to secure complete co-operation and cohesive action of all interested in the common cause, under one joint jurisdiction.

If exception be made of the recommendation that government employees' organizations affiliate with the American Federation of Labour, no criticism can be made of this statement of the function and means of action of this organization. This is all the more true when one considers the specific measures that this organization has sought to promote. According to Mr. Procter<sup>4</sup> they have embraced the following:

(a) Procurement of legislation beneficial to the government service and employees, and employees and protection from unjust and inconsiderate enactment of laws affecting them.

(b) Reclassification of salaries and wages based upon the value of work done.

(c) A satisfactory retirement plan (recently adopted).

(d) Improvement of methods and systems of work in the government service so that they may be brought more up to date, made more efficient and more responsive to the needs of the United States.

(e) A minimum wage law to provide that every government employee shall be able to work in health and decency.

(f) Extension of the merit system or civil service classification to all positions of the government service.

(g) The appointment of a civil service board of appeals or a board of mediation and conciliation composed of representatives of the employees and the employer for the consideration of differences and grievances.

(h) Improved working conditions, including half holidays on Saturday through the year, and reasonably safe and comfortable places in which to do work.

In the foregoing, there has been consideration of the functions and means of action of organizations of public employees operating outside of the field of administration. There remains for examination the extent to which it is desirable that public employees, acting through these organizations or otherwise, shall participate in the actual work of administering a personnel system.

This participation can take place in two ways: through the giving of advice, and through the exercise, or the sharing in the exercise, of direct authority.

<sup>4</sup>Principles of Public Personnel Administration, pp. 191-92.

In general the opinion seems to be prevailing that co-operation in the first way, at least, should be expressly provided for by statute. The Congressional Joint Commission on Reclassification of Salaries invited and made large use of the services of representatives of federal employees in making its investigation and in formulating its conclusions, and it recommended in its report that definite provision be made for securing currently the co-operation, in an advisory way, of employees in administering the systems proposed by it. Its proposal took the form of recommending that provision be made for a "civil service advisory council" and "personnel committees." The former, it suggested, should be composed of twelve members, six representing the directing personnel and six the subordinate employees, the latter to be selected by the employees themselves from their own number, two from each of three main groups of services: manual, clerical, and professional. The functions of this body, it stated, should be "to consider proposed changes in civil-service rules and regulations affecting the personnel of the service, as well as other matters on which the advice of the council may be of assistance" and "to offer to the Civil Service Commission at any time recommendations on any question coming under the jurisdiction of the latter." The "personnel committees," it stated, should be established according to policies determined by the advisory council, have the same general character as that body and have as their function "to assist in improving the morale and efficiency of the service and in making suggestions and recommendations as to personnel service regulations, methods and organization of work, working conditions, health and safety."

**Employees' Organizations in Public Service of Great Britain.** In England, the war cabinet, in 1918, decided to apply the principles advocated in the Whitley report regarding the creation of workers' councils in private industrial establishments to the industrial works of the government. Conference committees have, thus, been created in practically all of the industrial establishments of the government and departmental joint councils in each of the departments of the government having such establishments. Regarding these, Mr. Mayers says:<sup>5</sup>

Matters that are regarded ordinarily as exclusively trade questions, such as wages, piece prices, shop rules in relation to union rules, etc., fall under the jurisdiction of an entirely distinct committee known as the "Trade Committee." The final point of difference is that both the shop, department, and works committees on the one hand and the trade committees on the other are composed of representatives or

<sup>5</sup> *Op. cit.* p. 676.

stewards of the trade unions having members employed in the shop. In short, the trade union has been accepted as the sole and complete basis of employees representation.

For services of a non-industrial character, provision has been made for a "National Council for the Administrative and Legal Department of the Civil Service" and for special organizations in sixty or more of the distinct services. In these, membership in organization, of employees is made the basis of representation.<sup>6</sup>

That valuable assistance can be rendered by employees, speaking through their organizations or committees, in the devising of a system of personnel administration and its subsequent modification, there can be no doubt. It is exceedingly questionable, however, whether their participation should go beyond this. The fundamental objection to their exercising any authority in respect to administrative determinations is that authority is thereby weakened and responsibility scattered.

**Operations under the Australian Arbitration (Public Service) Act of 1911.** The evils that can result where full authority over personnel is not vested in those in direct charge of work are shown by the disastrous experience of Australia. It is recognized that this is an extreme case, but the results of this experiment are none the less illuminating. As is well known, Australia has taken advanced ground with respect to legislation for the promotion of the interests of labour. Included in such legislation is an act providing for the establishment of a Commonwealth Court of Conciliation and Arbitration, having authority to determine, upon the matter being brought before it, wages and other conditions of employment in private industries. In 1911 the Dominion Parliament passed an act entitled "Arbitration (Public Service) Act," which authorized public employees to form organizations, to register these in the Commonwealth Court of Conciliation and Arbitration, and to bring before that body for adjudication any claims that they might desire to make relative to the compensation paid to their members or other conditions of their employment. It is evident that the result of this action was to take away from the directing heads of administrative services the final determination of the employment conditions that should obtain in such services and to vest it in a body that was not responsible for the work of such services.

It was a foregone conclusion that this system would work disastrously. Its results, in fact, have been utterly to demoralize the public service. This is graphically brought out in the report of the

<sup>6</sup> For a valuable account of the organization and work of these bodies see "Civil Service National Whitley Council: Report of the Joint Committee on the Organization of the Civil Service, 1920, Document No. 3804".

"Royal Commission on Public Service Administration, Commonwealth of Australia," of July 28, 1920. In this report the operations of this act are denounced in scathing terms. The following extracts from this report show the character of these criticisms:

It was anticipated in some quarters that by the passage of the Arbitration (Public Service) Act, the Public Service Commissioner and his inspectors would be relieved of much responsibility and that the volume of work in administering the Public Service Act would be appreciably reduced, it being assumed that if the functions of prescribing salaries and allowances, fixing hours of duty, and determining questions affecting the condition of employment were transferred from the Commissioner to the Arbitration Court, the burden of the Commissioner's responsibility must necessarily be lightened. This has proved a fallacy, for, as a matter of actual experience, the reverse has been the case. . . . There is not the slightest doubt that the settlement of difficulties arising from awards has made the administration of the service more complex, and responsible departmental officials, who have been required to carry out the provisions of these awards have become bewildered and perplexed, and have been compelled to fall back upon the commissioner for direction and advice. . . .

In placing the responsibility upon the Arbitration Court of dealing with claims of public servants for increased pay and privileges, it was apparently never realized by the framers of the Arbitration (Public Service) Act that the Court was being set an almost impossible task. However skilled the judges of the Arbitration Court may be in analyzing evidence bearing upon industrial problems, however painstaking and conscientious they may be in the discharge of their onerous duties, the fact remains that they have been required to deal with questions which can only be satisfactorily compared by men with long experience in the management of the public service. Generally speaking, the Court has found the greatest difficulty in following the intricacies of Public Service Organization and has produced crop after crop of anomalies and inconsistencies, rendering the work of control a most exacting and unsatisfactory business. . . . The Court has been unable to view the Public Service as a whole and the result has been a loss of elasticity of working and consequent embarrassment of those responsible for the management of the Service. . . .

Public Service arbitration has proved a most costly affair. In order to obviate legal expenses, it is provided by the Act that neither party to a plaint shall be represented



by counsel in the hearing of cases by the Court, but representation of the Commissioner and departments has involved heavy expenditure because of the necessity for bringing witness from other states to give evidence, and in paying the salaries of those witnesses and of other officers in attendance at the Court. On the side of the public Service Associations the cost of prosecuting their claims has also been heavy as although legal representation in the court is prohibited by the Act, legal assistance outside the court is availed of in many cases. In addition, the salaries of numerous witnesses as well as their travelling and living expenses have to be recouped by associations. The salaries and expenses of executive members of associations appearing in the Court also form a serious item of expenditure.

The expenditure on salaries and allowances of public servants has under the arbitration system increased by leaps and bounds. . . .

In the foregoing analysis of the results of the Public Service legislation dealing with arbitration, it has been shown that a gradual process of disintegration has operated throughout the Service, combined with the weakening of constituted authority, the reduction of efficiency, and the general disorganization of departmental management. The advantages which were expected from such legislation have failed to materialize, while the disadvantages have been such as to make one despair of the future of the Public Service. It is certain that the experience of the Commissioners, in regard to settlement of Public Service claims and grievances through the medium of an Arbitration Court, has been of such a disappointing and unsatisfactory nature as to serve as a salutary warning to all State Governments and to the public services of other countries."

## CHAPTER XXIV

### RETIREMENT SYSTEMS

One of the latest developments in the field of personnel administration is the demand that governments shall make provision for the pensioning of those of their employees who, on account of advancing age or physical disabilities, have become unable properly to perform their duties. Though other factors are present, the rise of this demand can largely be attributed to the steady development of the merit system, bringing with it permanency of tenure of public servants. So long as the spoils system existed, with a constant shifting of personnel, this problem either did not exist at all or was of so relatively small importance as to attract but slight attention. Upon the adoption of the principle of permanency of tenure, there was immediately presented the problem of determining the conditions that should govern the separation of employees from the service. Failure to make proper provision in respect to this matter means the development of conditions that either entail great personal hardship upon employees or bring about a condition of affairs within the services absolutely destructive of efficiency in operation. Either employees, as they become less efficient or wholly incapacitated for work as the result of physical disabilities arising from accident, sickness, or failing powers consequent upon advancing years, must be ruthlessly dropped from the service without any provision for their future financial needs, or the services must acquiesce in the possession of a personnel composed in no small part of employees who, on account of the physical impairment of their powers, are unable to render a service representing a proper return for the compensation received by them.

In point of fact, the second of these alternatives is the one always chosen when no systematic provision is made for the retirement of old and incapacitated employees upon a pension of some sort. The full extent of the loss of efficiency and the wasteful expenditure of public funds resulting from this condition of affairs is not generally appreciated. Many thousands of dollars are paid for salaries for which no corresponding service is received. The retention of these employees, moreover, clogs the paths of promotion and by so doing lessens the incentive to good work by the younger employees and materially impairs the general morale of the service. In the army and navy these factors have long been recognized and provision has been made for the compulsory retirement, upon part pay

of officers attaining a certain age. It should further be recognized that employees retained but not giving adequate return for their compensation, by the mere fact of their presence, entail considerable expense through the necessity of providing them with quarters, light, heat, etc., and meeting their proportionate part of what is known as general overhead cost. Employment of two men of impaired efficiency to do the work of one able man means a financial charge upon a service much greater than is represented by the payment of two salaries instead of one salary. From the purely selfish standpoint of the government as an employer and apart from the humane treatment of employees who have grown old or become incapacitated in the service, it is desirable that wherever permanency of tenure is adopted provision should be made for a pension or retirement system.

**Types of Retirement Systems.** Though the desirability of governments making provision for the retirement of their old and incapacitated employees is now generally recognised, the practical problem of organizing such a system is one presenting many difficulties. To persons who have given no thought to it, the matter has seemed to involve little more than fixing an age at which employees shall be retired from the service and the amount of the allowance that shall be granted to them upon their doing so, with special provision at the same time to meet the cases of those becoming incapacitated for work prior to reaching that age. In point of fact, the problem is far from as simple as this. Involved in it are many other questions, in respect to which different lines of action may be taken and regarding which a decision must be made.

Among them, the first to be met is the determination of the financial basis upon which the system shall rest; that is how the money with which to make the retirement allowances shall be raised. In practice, the choice lies between three systems known as: the non-contributory, the partly-contributory, and the wholly-contributory. Under the first the government undertakes to defray the entire cost of making the retirement allowances. Under the second, the cost is met partly by the government and partly by the employees, the contribution of the latter being secured through compulsory deductions from their salaries which are carried to a fund which, together with the government's contributions, furnishes the funds with which to pay the allowances. Under the third the entire cost is met by the employees through the deductions made from their salaries, though it is usual in such cases that the cost of administering the system will be borne by the government.

Each of these systems has its advantages. The attempt to compare the relative merits of these three systems in detail is impracticable here. Certain of the more important considerations that

are involved may, however, be mentioned. There are many who are unwilling to accept the principle underlying the first and second systems. By them, the stand is taken that government employees are under the same obligation to make provision through saving for their future financial needs that confront persons in private employment, and that governments do all that they can properly be called upon to do, in organizing and administering a system under which compulsory provision of this kind will be made through deductions from their salaries adequate to accomplish this purpose. Persons holding this position are, thus, advocates of the third or wholly-contributory system. Others maintain that both as a matter of principle and expediency the entire charge of the system should be borne by the government. From the principle standpoint, they see no reason why employees in the civil branch should not be treated as are those in the military and naval services. From that of expediency they point out that this system is much the simplest one, doing away as it does with the complicated and expensive method of making deductions from pay. There are, finally, others who look upon the responsibility as a joint one and, consequently, advocate the compromise or partly-contributory system. Though tending to emphasize the responsibility of the government, they see a moral advantage, at least, in having the employees by their own sacrifices contribute something toward providing for their future. Finally, there are not a few who hold that the choice between these three systems is a relatively unimportant one, it being contended that all three give substantially the same result from the standpoint of financial sacrifice by the two parties. It is argued thus, that when the system is entirely supported by the government, this fact is taken into account in fixing the salaries of employees. Thus civil service employees of the British government in 1909, by an almost unanimous vote, petitioned the government to change the existing non-contributory system into a contributory system, giving as their principal reason that "the effect of a system maintained entirely at government expense was to depress salaries by an amount far in excess of the benefits of the pension; hence such a system, although non-contributory in appearance, was in reality a contributory system."<sup>1</sup> The contrary contention can also be made that when deductions are made from salaries this also is taken into account and salaries so fixed as to give an adequate net return to the employees. Due to these and other reasons, the tendency in the United States has been to adopt the partly-contributory plan as a fair compromise between conflicting considerations.

<sup>1</sup>H. H. Baish, *Retirement Systems and Morale in Public Service. Annals of the American Academy of Political and Social Science*, May, 1924, p. 340.

**Character of Financial System.** With a decision reached regarding the type of system that will be established, the problem is then presented of the method to be employed in distributing the cost over the years that the system is in operation. When a system is first established the payments to be made on account of retirement allowances will be relatively small. The amount of these payments will, however, steadily increase, since additions to the retirement roll will exceed those dropped from the roll on account of death. This increase will continue for twenty or more years. To meet this situation, two methods are open: one, of having the contributions, whether by the government or the employees or jointly by both, sufficient each year to meet the cost of that year, and, two, by having the contributions fixed at that amount which will not merely meet the costs of the year when made but also provide for an accumulation of funds which, together with the interest earned on such accumulation, will permit of meeting future increased charges without raising the rate of contribution fixed upon.

As between these two systems there can be no doubt that the second is the one that should be adopted. If it is not adopted, the government, under a non-contributory plan, will be called upon to disburse a constantly and rapidly increasing sum in meeting its obligations, a sum which in time will amount to a considerable percentage of the entire payroll. If the system is a contributory one, the employees will each year be called upon to increase their contributions. This is inequitable as between existing and future employees and will give rise to such dissatisfaction as will wreck the system or compel its reformation.

Plain as these facts are to all who have given any study to insurance problems, they have largely been ignored in practice. Many systems have been established without giving any recognition to the fact that disbursements for retirement allowances will steadily increase over a long period of years. Even when this increase is recognized and attempts have been made to provide for it, rarely has the actuarial problem of determining the level payments required been properly worked out. Indeed, the statement may be made that scarcely a single government retirement system has been established in the United States that at the outset was actuarially sound. All, if not already confronted with the problem, will soon be faced by the necessity of radically reforming their contribution systems. The system of the national government, which one might be supposed would be worked out with special care, falls in this class. Of it Mr. Doyle, Secretary of the United States Civil Service Commission, writes:<sup>2</sup>

<sup>2</sup> John T. Doyle, *The Federal Civil Service Retirement Law*, *Annals*, May, 1924, p. 337.

The Federal Government is permitting an annual liability to accrue equal to 3.87 per cent of the pay roll of members to provide the benefits. This amounts to upwards of \$17,000,000 per annum, which, together with interest earnings and with undepleted contributions at interest, provides the funds required to meet the benefit obligations. Provision is not made for this contribution currently, nor is it even set up as a liability, but the Government annually diverts the contributions of the employees to pay the pensions of those retired and permits this depletion to continue, not only unaccounted for but altogether disregarded. A day of reckoning must come when the government must not only appropriate this 3.87 per cent of the pay roll for each elapsed year, but also make up the interest compounded at four per cent that it fails to credit to the fund. It is not possible to estimate with any degree of accuracy the extent of the liabilities, but experience with other systems indicates that the amount required will increase ultimately to more than twenty per cent of the pay roll, if payments are not met as they accrue. Since the liabilities are not known, there is no means for measuring present and future obligations or of shaping a course from the many proposals for change in the system. Obviously the liability should not be permitted to continue mounting up as an obligation to be met through taxation without record of its magnitude.

**Character of Benefits.** The problem of establishing a retirement system would be greatly simplified if the only benefits provided for were annuities to be paid during life to employees separated from the service after reaching the retirement age. Few, if any, systems that have been established in the United States have been content to restrict their benefits to this one feature. Most, if not all, provide for the payment of annuities to those retired on account of physical disabilities before reaching the retirement age, and payments to the heirs of employees dying before reaching that age. When the system is a contributory or partly-contributory one, it is also usual to provide that employees resigning or being separated from the service for other reasons before reaching the retirement age will have returned to them all the contributions that they have made with interest of a fixed rate. Provision may also be made for making payments to the heirs of annuitants who die before they have had the benefit of the annuity for a fixed number of years.

It is evident that provision for these various benefits greatly complicates the actuarial problem of devising a system that will be financially sound and do justice to all parties interested. This problem is so difficult that it can only be solved by those who have

made the problem of actuarial variances a special study, and no attempt should be made to devise such a system without making use of the services of specialists of this kind.

**Provision for the Immediate or Early Retirement of Existing Employees.** Where the retirement system is a non-contributory one; that is, where the entire cost is met by the government, no special problem is presented in providing for the payment of the annuities of those who are immediately retired when the system begins to operate or are retired during the early years of the system's operation. It is otherwise, however, where the system is a contributory or partly-contributory one. These systems rest upon the principle that the employees, during their years of service, will make contributions sufficient in amount to provide, in whole or in part, for the annuities to which they will ultimately be entitled. Since no such contributions have been made by those employees who have reached the retirement age, when the system enters into force and inadequate contributions will be made by those who reach this age during the early years of the system special provision must be made for their cases. As it would be unjust to make the contributions of all employees high enough to pay not only their own retirement cost but also that of these existing employees as well the provision is usually made that this cost shall be met by the government. This means that in organizing the system a clear distinction must be made between the financing of the system as applied to persons entering the service after the system is established and those already in the service and partly along the road to the benefit-receiving stage.

**Other Factors.** The foregoing, though the most important, by no means exhausts the factors that enter into the problem of devising a satisfactory retirement system. Others are the determination of the extent to which length of service as well as attained age will have weight in determining the right to an annuity or its amount, the basis for fixing the amount of the annuity, the right to continue an employee in the service after the annuity age is reached if the employee so desires, the extent to which the system shall be made applicable to all civil employees or special provisions be made for particular classes, such as school teachers, policemen and firemen, and the like, and the machinery that shall be set up for the administration of the system. Into these questions we cannot here enter since our purpose is to make known and analyze the problem of public administration rather than to attempt to solve all of the technical questions to which such problems give rise.<sup>3</sup>

<sup>3</sup> Especial restraint in considering this problem has been exercised since the whole subject has been so clearly and fully handled in another publication of the Institute for Government Research. Reference is

**Movement for the Establishment of Retirement Systems for Government Employees in the United States.** The movement for the establishment of retirement systems for government employees has two phases: the organization of such systems for special classes of employees, and particularly teachers, policemen, and firemen, and the organization of systems for civil employees generally. The first phase has had an extensive development and is now rapidly spreading. The first retirement system for public employees to be established in the United States was in City Pension Fund for Policemen of New York City, created in 1857. Other cities in time made similar provision for the retirement of their policemen and firemen. It is in respect to teachers, however, that the movement has had the greatest development. Mr. Baish, the Secretary of the Retirement Board of Pennsylvania, lists twenty-three states as having enacted state-wide laws for the retirement of their public school teachers, and states that there are over one hundred teachers' retirement systems in the United States.<sup>4</sup>

Much less progress has been made in respect to the second phase. The first general retirement system for government employees was established by Massachusetts in 1911. Eight years later, 1919, Maine and Connecticut followed suit. Similar action was taken by New York in 1920, New Jersey in 1921, and Pennsylvania in 1923. A general retirement system for the national government was created in 1920. Eight States: Rhode Island, Maryland, Indiana, Michigan, Tennessee, Colorado, California and Wisconsin, have passed laws authorizing their political subdivisions to establish retirement systems for their employees. The movement, though slow in getting under way is now in full swing, and it is only a matter of time when provision for the retirement of employees will constitute a feature of the personnel systems of all of our important governing bodies.

had to the work by Lewis Meriam, *Principles Governing the Retirement of Public Employees*, 1918. This work is the recognized authority on the subject.

<sup>4</sup>Baish, *Op. cit.*





PART III  
MATERIAL



## CHAPTER XXV

### SOME FUNDAMENTAL CONSIDERATIONS

The problem of the procurement and effective utilization of the material objects required in the operation of an enterprise has much in common with that of the procurement and utilization of personal services. Both require the establishment of means for determining accurately requirement needs from both the qualitative and quantitative standpoints, of classifying those needs according to some consistent principle, of creating a special procurement service, and of providing a machinery and procedure that will set up a proper control over use. It is only when we proceed from these general principles to the details of organization and procedure that the elements entering into the two problems become differentiated.

In a small undertaking, and especially in one under the direct management of its owner, the procurement of the plant, equipment materials, and supplies needed for the conduct of the undertaking and their subsequent utilization, though a matter of prime importance and, indeed, one where the efficiency with which it is performed often determines the success of the enterprise, is a matter giving rise to no difficult questions of organization or procedure. In such undertakings, the matter of determining what materials, equipment, and supplies are required and in what quantities and the taking of the steps for their procurement, is usually handled directly by the owner or general manager. All that is required is the exercise of sound judgment in respect to requirements and due care in meeting those requirements often by the simple process of purchase in the open market.

Immediately upon an undertaking assuming magnitude, the whole nature of the problem changes. Especially is this true where the undertaking is of a character involving the performance of a variety of activities or the production of a wide range of products. And still more is it true of a government which, in addition to engaging in numerous different lines of work, has to carry on its operations under special legal restrictions calculated to ensure fidelity on the part of all officers and employees.

**Classification of Material.** In a general way the material required for the conduct of an enterprise may be classified under four heads: (1) Plan, (2) Equipment, (3) Materials, and (4) Supplies.

The distinction between these classes is clear, though, in specific cases, difficulty is sometimes encountered in determining whether a given article should be classified as equipment or supplies or as materials or supplies. This arises where the article of equipment is of a petty character and has to be frequently renewed, and where the same article can be used both as a material or as a supply. The distinction between materials and supplies is that the former represent objects which it is intended will be incorporated in the physical product of the undertaking while the latter represent articles consumed in the process of carrying on the work of producing the product.

In a private undertaking, this classification has importance from both the standpoint of accounting and general administration. In a government, interest is concentrated almost wholly on the fourth class, supplies. This arises from the fact that few government services have a tangible, physical product, that they consequently have to procure little or nothing in the way of materials, and that their plant and equipment requirements, being largely restricted to that of office quarters and equipment, are simple in character and of relatively little importance.

To this statement exception must be made in the case of those services that are of a revenue producing character. Here the problems of material are nearly identical with those that confront a private undertaking for gain, throughout this work the effort has been made to emphasize the fact that the problems of administration of such services, from both the accounting and general operative standpoints, are distinct from those of the ordinary government services: and that, generally speaking, they should be administered in the manner and in accordance with the principles that should govern private enterprises of an analogous character. It is thus desirable that a work, such as the present one, dealing with the general problems of public administration should recognize this distinction and make its discussion relate directly to the administrative problems of services not having this revenue producing character.

In view of the foregoing it should be observed that the discussion that follows has reference only to those services of the government whose function is that of the rendition of services rather than the production of a tangible, physical product, and, in the case of these services, which, however, constitute the great bulk of the services of a government, has in mind only the problems having to do with the procurement and utilization of supplies and that class of equipment such as office appliances which, on account of its relative simplicity, may be handled in the same way and by the same machinery as in the case of procuring and using supplies.

Having restricted our consideration in this way analysis shows that the problem of material may be resolved into the following clearly distinguishable elements:

1. The determination of requirement needs.
2. Procurement.
3. Storage, issue, and use.
4. Organization and procedure.

**Determination of Requirement Needs.** Manifestly, the first step in handling the problem of supply is that of determining requirement needs. This, in turn, involves the three factors of determining: (1) the kind of articles needed, (2) the quantity of each article needed, and (3) the time and frequency of delivery. It might seem that this matter of determining requirement needs is one of comparative simplicity and involving no important questions of organization and procedure. In point of fact, it is otherwise. In all offices economy or waste results according to the degree of care and discrimination exercised in answering these several questions. There are few articles, either of equipment or supplies, in respect to which a wide range of choice and a corresponding variation in cost does not exist. If the article is desks, what kind of desks, what size, what material—mahogany, oak, or other wood? If paper, what sizes and qualities? If typewriters, what types? In determining these questions a high degree of technical skill is often required. This means that such needs should not be left to casual determination as one article after another is required. As far as possible each service should make a special careful and technical study of its material needs and, on the basis of such study, formulate what may be termed its procurement program. Especially is this necessary where, as in the case of government services, supporting data should be given for their requests for appropriations and an accurate report rendered of how moneys granted have been expended.

**Material Specifications.** In our consideration of the problem of personnel it has been pointed out that not only should each service determine by careful study the character of personnel needed by it, but that this determination should also be expressed in carefully worded job analyses of all categories of employees whose services are needed. Precisely the same need exists in the case of material. The advantages of doing this for all articles to be purchased by a service are many.

In the first place these classifications make known in a precise and definite way the exact character of the articles required, their quality or grade, the nature of their constituent materials, the manner of their construction and all other needed special attributes,

Secondly, they facilitate the work of the service in calling for its supply of articles, since, with the specifications once made, reference thereafter can be made to them by general title or number, thus avoiding the necessity of setting forth each time in detail the nature of the article required. Thirdly, they lessen greatly the work involved in the purchase of the articles; and, most important of all, they make it possible accurately to check deliveries for the purpose of securing assurance that the articles purchased correspond in character and quality to the ones actually ordered. The preparation and use of proper specifications, thus, lie at the foundation of the whole system of supply in the same way as the description and classification of jobs or personnel lie at the basis of the whole problem of personnel.

The need for, and the advantages of, material specifications have been so well stated by Mr. A. G. Thomas in his work on *Principles of Government Purchasing* that it is worth while to reproduce part of his remarks, even though it entails something of a repetition of what has been said.<sup>1</sup>

The advantages which flow from precision and definiteness in the specifications contained in the invitations to bidders are manifold. A full and precise specification greatly enhances the trading reputation of the purchaser for exact knowledge of his needs. It informs the dealer that shiftiness during the course of a purchase agreement is not a part of the purchaser's policy—a certainty which obviously encourages competition among the most desirable vendors and secures the lowest prices. It saves the time of dealers, often a very important consideration, while incomplete descriptions, on the other hand, often require that a dealer spend a great amount of time or rely upon personal knowledge of requirements or bid without sufficient knowledge. It saves the time of the purchasing office in answering questions of possible bidders, and it often saves the time of those who are to receive or use the goods purchased, since otherwise dealers often turn to them for information.

Again, a precise specification avoids the danger of collusion between dealers and those who are to receive and use the articles purchased. To avoid this responsibility, it is considered essential by most large purchasers that all information given to the trade in regard to purchase agreements should come from the purchasing department rather than from those who are to receive or use the goods.

<sup>1</sup>A. G. Thomas, *Principles of Government Purchasing*, pp. 123-24  
Institute for Government Research, *Principles of Administration*.

Absence of a precise specification involves moreover the danger that information given verbally will be stated in different form of several dealers. Such discrepancies in information are practically certain to arise if dealers are left to rely upon such information as they can pick up in the course of conversations in order to supplement incomplete descriptions in invitations for bids. Even if no unconscious favouritism is shown by those giving verbal information, misunderstandings are sure to follow, resulting in delays due to the necessity of replacing articles incorrectly delivered, and in extreme case in litigation.

The importance of the preparation of specifications for all supplies needed is now thoroughly recognized by most progressive private corporations. It has, however, made its way much more slowly in the case of governments, and it remains one of the important reforms needed in their performance of technical administrative duties.

**Standardization of Specifications.** In considering the desirability for all articles of supply to be purchased, mention has yet to be made of one, if not the greatest advantage of such action. This lies in the opportunity that is thereby offered of unifying, as far as circumstances will permit, the practice, not only of all subdivisions of a service but also of all the services of a department, or even of the government as a whole, in respect to kind of equipment and supplies that will be used. It permits, in other words, the formulation and adoption of what is known as standard specifications for general use by all units of organization.

It is difficult to overestimate the importance of effecting such a standardization. Once secured and effective means provided for its current revision, all of the processes of determining requirement needs, purchasing, storing, etc., are greatly simplified and supply costs are greatly reduced. As Mr. Thomas has expressed it:<sup>2</sup>

Standardization is now recognized by purchasing agents as the basis for efficiency in purchasing, for it tends to secure for all similar needs the article which experience has shown to be the best for the purpose. Again, it enables the purchasing agent to buy in large quantities by consolidating purchase needs to the highest degree, which is possible only when identically the same item is to be brought for each unit of service. It facilitates interchangeability of articles as between units of service; it facilitates the maintenance of stock by eliminating needless variety and concentrating attention on essentials, and thereby

<sup>2</sup>*Ibid.*, pp. 133-34.



makes stock items readily available for use and obviates the necessity of emergency purchase; it eliminates waste and surplusage arising from the fact that individual preferences of certain individuals may be disapproved by their successors in office; and it avoids the danger of favouritism or graft in such individual tastes or preferences. By reducing the number of items to be purchased, it simplifies the work of the purchasing office, a matter of great importance to an office which has upwards of ten thousand items to be purchased, as in the case of a railway purchasing department; it simplifies the work of inspection by reducing the variety of items on which inspectors must exercise their judgment, and the work of accounting and of auditing by reducing the number of items on stores, property, expense and cost accounts and of those entering into the totals of the general accounts. Lastly, it makes possible comparisons in price on standard items between two or more delivery points or between two or more varied delivery conditions or methods of purchase.

The advantages of standardization of specifications to those furnishing commodities to governments are no less great. To quote from the Year Book of the American Engineering Standards Committee for 1926:<sup>3</sup>

.... it [standardization] simplifies manufacturing processes; it stabilizes production and employment, since it makes it safe for the manufacturer to accumulate stock during periods of slack orders, which he cannot safely do with an unstandardized product; it broadens markets both for the producer and for the consumer; it lowers cost to the public by making more production possible; it enables buyer and seller to speak the same language, and makes it possible to compel competitive sellers to do likewise; it reduces selling cost; it stimulates research and makes for the elimination of antiquated methods and products; and by concentration on essentials, and the consequent suppression of confusing elements intended merely for sales effect, it helps to base competition squarely upon efficiency in production and distribution and upon intrinsic merit of product.

Another point that should be mentioned in this connection is that the preparation of specifications for many articles requires a high degree of specialized knowledge and often the prosecution of technical researches and comparative tests. Many services do not have the technical personnel and equipment for such work. The adoption of the policy of standardization of specifications means that this work will be performed by some central agency

acting for all subdivisions of a service or all services of a department or government, the personnel of which is specially recruited for such work and supplied with an adequate equipment for making the inquiries required. Standard specifications will, thus, be greatly superior to those prepared by the services acting independently. This question of centralization of the work of specification will receive further consideration when we come to consider the question of organization for the handling of supply matters.

**Movement for the Standardization of Specifications in the United States.** The value of carefully drafted standard specifications has long been recognized by private industry and large sums have been spent by the important corporations of the country upon their preparation. It is only within comparatively recent years, however, that there has been a similar realization by governments and serious efforts have been made to secure such standardization. In these efforts the national government has taken the lead, and the work now being done by it in this field is on a large scale. Almost immediately upon its creation in 1921, the Bureau of the Budget appointed a Federal Specification Board, to which was entrusted the duty of preparing standard specifications for all the important classes of articles purchased by the government. The Director of the Bureau of Standards was made *ex officio* chairman of this Board, which in performing its duties makes use of seventy-six technical committees. Up to June 30, 1926, the Board had prepared and promulgated 414 specifications, the use of which is made obligatory by all the services of the government. In the preparation of these specifications it has had the advice and assistance of the American Engineering Standards Committee, a body representing practically all of the important industrial and technical organizations of the country. Before final action, the proposed specifications are in all classes submitted to this committee.

The work thus done and being done by the national government in co-operation with the industrial organizations of the country extends far beyond the operations of the national government itself. These specifications are available to all other governments and to private industry as well. They, therefore, represent a standardization of specifications for the entire country which, if not used in all cases in precisely the forms drafted, are of great assistance to all other bodies in preparing specifications to meet their special needs. On May 25, 1923, a conference of state purchasing agents was held at the Department of Commerce at Washington at which the decision was reached to prepare a directory or encyclopedia of specifications for commodities prepared by all governments and public institutions, the work to be done under the auspices of the Department of Commerce.

It will be seen from the foregoing that this work of drafting standard specifications is being prosecuted under the most favourable auspices possible. No other organization, governmental or private, has the technical equipment for this work as has the national government in its numerous scientific bureaus and agencies. Prosecuting its work as it does in co-operation with private agencies, there is assurance that the specifications will be ones which not only most nearly represent the needs of the purchaser but conform to the conditions to be met by the producer. While other governments will have to concern themselves with this problem, they will in all cases have the work of the national government as a starting point for their work. From the standpoint of national economy as well as that of economy in the conduct of governments the importance of this work cannot be overestimated.

**Procurement.** The next step following that of determining supply requirements is that of securing the needed articles. This operation is here designated as that of procurement rather than purchasing, since it involves a number of factors other than purchasing proper. Analysis of the problem of procurement shows it to comprehend the operations of selecting the vendor, agreeing upon the purchase price, time and place of delivery and other elements of the contract, verifying deliveries for the purpose of determining that they correspond in character, quality, and quantity to the ones ordered, and of attending to the matters involved in the settlement and payment of vendor's remuneration claims. In performing these operations the end sought is, to secure the articles specified when and where needed and at the lowest obtainable price and to make certain that no collusion exists between the vendor and vendee and that all qualified dealers are treated on terms of equality.

It has been stated that the drafting of specifications often involves the exercise of a high degree of technical skill. Special skill or at least knowledge, is also required on the part of those making the actual purposes,

With its purchasing program before it, the procurement service is confronted with the task of determining current market conditions to the end that it may secure the articles appearing on such program to the best possible advantage as specific requisitions are made upon it. Knowledge of general business conditions is essential in order that prices when bid may be properly weighed, and that a guide may be had as to when it is most advantageous to buy and in what quantities. Such knowledge is also essential in order that the procurement service may be in a position to advise the management regarding the advisability of expanding or curtailing operation or undertaking new lines of work.

Knowledge of specific conditions and tendencies in each field of purchase is essential in order that the procurement service may handle effectively such matters as the alternative articles available to meet requirement needs; their relative merits, prices, etc.; the best time to buy and in what quantities; the most advantageous conditions as regards deliveries; the best method of purchase, whether in the open market or under formal contracts covering a longer or shorter period of time; and the conditions to be met in respect to transportation, availability of raw materials, labour supply, etc. In a word, it is one of the distinct duties of a purchasing service to familiarize itself with all market and industrial conditions that in any way affect its problem of securing material on the most advantageous terms.

Following this, the purchasing service must give consideration to those elements which will lead to effective competition between suppliers of material and, consequently, to minimum prices. Here the primary consideration to be met is that of harmonizing or adjusting the requirement needs of the operating departments to market conditions. For example, the operating departments may formulate their requirements without reference to the character of articles commonly produced and in the market. Their specifications may call for articles not on the market, which will require special manufacture, or are made by but a single or a relatively few concerns. Under these conditions effective competition, advantageous prices, and prompt delivery will be difficult to secure. A slight change in the specifications may result in the call for articles equally adapted to the needs of the operating department, or reasonably so, and which are currently produced by a large number of concerns or which a comparatively large number will be willing to undertake to furnish.

From the viewpoint of the trade the elements essential to secure competition may be broadly stated to be: (1) Specifications sufficiently broad to permit competition on the part of a large number of concerns; (2) the preparation of invitations for bids so worded as to furnish full information regarding requirements, methods of bidding, forms of bids, and basis of awards; (3) elimination, as far as is possible, of speculative elements as total quantities desired time and frequency of deliveries, quantities at each delivery, place of delivery, the nature of the tests that will be employed in determining acceptance of deliveries, etc.; (4) the financial standing and reputation for fair dealing of, and the promptness with which payments are made by, the purchaser; (5) the elimination of troublesome detail of red tape in bidding, executing purchase agreements, accepting deliveries, and making payment of claims; and (6) attractive delivery conditions in respect to quantity and time and consideration given to the dealer's convenience.

The study of these and other collateral elements requires an examination of all available sources of supply and conditions existing in all branches of the trade; retailers, wholesalers, jobbers, commission men, and manufacturers or producers.

Having determined, or had furnished, the purchasing program, having assured itself that proper specifications descriptive of the articles have been prepared, and having thoroughly studied market conditions and the elements entering into the problem of securing effective competition on the part of dealers or producers, the purchasing service is then called upon to determine the method that shall be employed in making purchases or in inviting bids. Here a wide range of choice is open. It can enter the open market or purchase by special agreement with an individual dealer; it can call for bids from a selected list of dealers; or it can by general advertisement invite bids from all desiring to do so. It can hold itself free to take such action on such bids as it may desire; or it can obligate itself to accept the lowest bid received, or declare that its decision will be governed by a number of considerations.

Conditions governing this phase of the duties of a purchasing service are radically different in a private undertaking from those that obtain in a government. In general, the purchasing service of a private undertaking possesses broad powers of discretion in respect to the methods that will be employed in making purchases, inviting bids, and in making awards. In the case of governments, public policy and morality demand that purchasing agents shall play no favourites and that all qualified, respectable dealers shall have an equal opportunity to furnish goods called for. To ensure this, practically all governments prescribe by law the procedure to be followed by purchasing agents. Ordinary provisions are; that, when possible, that is, when the articles are not of a proprietary or special character to be procured only from certain producers or dealers and emergency does not demand immediate delivery, public invitations for bids, through the insertion of notices in newspapers, the mailing of invitations, or otherwise, shall be made, that the contract shall be awarded to the lowest bidder, or, at least to the one offering on the whole the most favourable conditions; that, to ensure that this is done, bids shall be opened in the presence of the bidders or their representatives if they desire to be present; and that the award shall be made by a committee or commission of officials,

Complaint is often made that these several restrictions upon the purchasing agents of governments result in an excessive amount of red tape, and involve a delay in deliveries often prejudicial to the using services, and unduly tie the hands of the agents and prevent them from taking advantage of special market conditions that are constantly being availed of by purchasers for private

concerns. There is often much justification in this claim. The whole question of harmonizing discretion and control in this, as in many other matters of government operation, is a difficult one. It would be quite beyond the scope of the present work to enter into a consideration of what precisely should be done by governments in respect to this matter. All that can be done is to point out the existence of this element as one of the factors of the government procurement problem.<sup>4</sup>

**Delivery.** The matter of deliveries involves a number of points worth at least casual mention. In contracting for supplies it is not necessary, and often it is inadvisable, to stipulate for the purchase of a definite quantity to be delivered on a fixed date. All that is necessary is to fix approximately the quantity that will probably be wanted during a given period and to provide that the supplies shall be delivered from time to time as ordered. This is the system generally employed by the General Supply Committee of the national government, which for many purposes acts as a general contracting though not general purchasing, agent for the services at Washington. The advantages of this practice are that the danger of purchasing in excess of needs is reduced to a minimum and economy is realized in storage charges.

Another point regarding deliveries requiring special attention is that of the place of delivery. In general it may be said that delivery should be made directly to the using services rather than to the procurement service or to a central storehouse. Especially is this true of such bulky supplies as coal, lumber, and the like. This is desirable in order to avoid the expense and the damage that may result to goods through a second handling. Involved in this matter is the question of the extent to which it is desirable to carry supplies in stores or to depend upon the making of purchases and deliveries from time to time as need arises. This is a point that will be further considered in connection with storage and issue.

**Inspection.** Far and away the most important consideration in connection with the matter of deliveries is that of taking the steps necessary to ensure that the deliveries made correspond in character, quantity, and quality with those ordered. Unless careful provision is made for checking deliveries in this way, the door is thrown wide open to loss by the government through the failure of contractors to live up to their obligations and collusion between the contractors and those whose duty it is to receive the goods. Where purchases are made on any extended scale, and particularly

<sup>4</sup>For a more exhaustive consideration of this subject, see Thomas, *Op. cit.*

where they are of a technical character, it is often desirable that the procurement service shall organize a special inspection service. In many cases the quality of the articles delivered can only be determined by submitting them to technical tests. Especially is this so in regard to engineering materials and military and naval equipment and supplies. At times it is desirable to have this examination or inspection made at the place of manufacture and in part during the process of manufacture.

**Storage, Issue, and Use.** Following the operation of procurement comes that of caring for the material after it is received and its issue for use to the operating units as needed by them. This operation is usually known as that of warehousing or storing.

It is evident that economy in respect to material requires that due care shall be taken that only articles adapted to the needs of the service are purchased, that purchases shall be restricted to actual needs and that such articles as are purchased shall be acquired on the most favourable terms and that equal care shall be taken that these articles when acquired are protected against loss and are used in an economical manner. This means that the goods shall be protected against the weather, fire, and other physical forces and that due precautions shall be taken against loss through misappropriation, accumulation of supplies in excess of needs, and extravagance or carelessness in use. Provision must be made in some way for the exercise of supervision and control over units of organization having the custody of material prior to its issue to the operating units and over the latter in respect to the granting of their requests for material and the use of the material furnished. Finally, there is need for exact information regarding all supply operations, the character and quantities of all articles purchased, the quantities on hand any time, the quantities issued to the several operating units, etc. In a way, therefore, the problem of the storage, issue, and use of material involves the three factors of physical custody, control, and information.

**Determination of Articles to be Carried in Stores.** As regards the physical custody of material, probably the most important question presented is that of the determination of the extent to which physical possession shall at once be taken of articles purchased, to the end that they may be on hand and available for immediate issue to the using services; in other words, the extent to which material shall be carried in stores.

The advantage of carrying equipment and supplies in stores are manifest. Not only are these articles immediately available for issue, but the elements of uncertainty in respect to the ability of vendors to meet their engagements and in respect to the securing of prompt transportation and delivery are eliminated. On the other

hand, the carrying of articles in stores means the additional expense of providing storage facilities, the liability of loss through fire, water, depreciation, and obsolescence, the purchase of supplies in excess of needs, and the extra expense of transportation and handling the supplies a second time, once on their receipt and once on their issue to the using services. All of these elements of cost can be eliminated by providing in the purchase contract that deliveries shall be made only as ordered and at the points designated. Where delivery is ordered to be made to the using services, the system is that known as "direct delivery."

Due to these conflicting considerations it is important that a careful study shall be made of the conditions surrounding the need for each article on the procurement program for the purpose of determining whether it should be carried in stores or be delivered upon order, either at a central warehouse or to the several services having need of it. As regards many articles, little difficulty in reaching a decision on this point is encountered. Manifestly, the system of direct deliveries upon order should be adopted in the case of bulky articles, such as coal, lumber, sand, etc., and articles of a perishable nature, such as food products. In like manner it is generally desirable to carry in stores non-bulky articles of continuous, current consumption, such as stationery and other office supplies and to a limited extent, at least, office equipment. These are things which it is not desirable that using services should stock greatly in excess of their current needs but which should be available for immediate delivery. As regards many classes of articles, only careful study and practical experience will determine what should be done.

Involved in this matter of storage is also the question of the extent to which the operating services shall each carry stocks of supplies or depend upon a central storehouse. This is a question that will receive consideration in connection with organization and procedure and the problem of the exercise of control over both the services having charge of stores and the using services.

**Standardization of Contract Forms.** Every purchase by a government is made in pursuance of a contract. In addition, governments enter into numerous other contracts, the most important of which have to do with the execution of public works. These contracts are legal documents of great importance. In addition to specifying the articles to be furnished or the work to be done, they set forth such requirements as the time of delivery or completion of the work, the penalties for failure to comply with conditions, the manner of adjusting differences that may arise between the contracting parties, etc. In the past the interpretation of these contracts



and the enforcement of their provisions have been a fruitful source of contention. In no small degree this has been due to the fact that there was no uniformity in the drafting of contracts or in interpreting and applying their provisions. Due to this uncertainty, to the necessity that government officers were under of rigidly standing upon their legal rights even though the circumstances might be such as to make it equitable to forego them, and to the difficulties that private claimants had in enforcing claims against a government, many responsible contractors were unwilling to do business with governments, or, when consenting to do so made their bids higher than they otherwise would have been in order to ensure against possible loss.

In the adoption of standard specifications, one source of disagreement is reduced to a minimum. To reduce or eliminate other sources, it is desirable that there shall be a corresponding standardization of contract forms. In the national government great attention has been paid to this matter in recent years and great progress has been achieved. One of the important steps taken by the Bureau of the Budget, in its efforts to improve the administrative system of the government, was the creation in 1921 of an Interdepartmental Board of Contracts and Adjustments, with the duty of drafting model standard contract forms for use by all services of the government, and prescribing the procedure to be followed in the letting of contracts and the enforcement of their provisions. In the preparation of these forms and regulations, careful study was made of statutory requirements, the decisions of courts, and the procedure used in private business. In all cases action was taken only after consultation with the various engineering societies and private contractors doing business with the government. The documents drafted included the contract forms, and those for invitations for bids, bids, instructions to bidders, bid bonds, and performance bonds. The Board has also drafted for submission to Congress a bill to make uniform the legal provisions governing government contracting which shall replace the provisions now scattered in the 225 statutes which prescribe the formalities and different methods of procedure to be followed by the various departments and establishments making contracts.

The work of this Board has been of great value in simplifying and improving the whole procedure for handling this important feature of public administration. It has also effected great economies through the securing of more favourable bids, the reduction in controversies arising under contracts, and the simplification of procedure. In all cases, the standardization of specification should, therefore, be followed by a similar standardization of contract forms and other documents and procedure used in the procurement of material or the execution of work for the government by private parties.

## CHAPTER XXVI

### ORGANIZATION AND PROCEDURE

In the foregoing little more has been attempted than a general statement, through the means of an analysis, of the problem of supply as it confronts government services and the more important considerations and principles that should be observed in meeting this problem. It is now desired to consider somewhat more particularly, and yet in a non-technical manner, certain questions of organization and procedure involved in meeting these considerations and putting the principles enunciated into practical operation.

Examination shows that in any large service the following organization units have to do in one way or another with the matter of supply:

1. Operating division or subdivision.
2. Office of general administration.
3. Supply division.
4. Procurement service.
5. Accounting and disbursing office.

The problem of organization and procedure involves the determination of the functions or duties of each of these agencies, their relations to each other, and the procedure employed in the performance of those functions and the maintenance of the relationships indicated.

**Function of the Operating Division or Subdivision.** The functions or duties of the operating division or subdivision are: to determine its supply needs, to make known those needs, and to use in an economical manner the supplies furnished it.

In respect to the first of these the desirability has been pointed out that each service shall annually make a careful survey of its needs during the coming fiscal year. This is necessary, as an essential step in the formulation of its requests for appropriations, in order that the purchasing agent may be given information on which to plan his work and that the work of standardizing specifications may be effectively prosecuted. This involves taking stock of equipment and supplies on hand as well as a determination of prospective needs. The result of this examination should be embodied in a "return", a copy or copies of which should be forwarded to the

office of general administration of the service of which the division or subdivision is a part.

The second step, that of making known its needs, has reference to the formulation from day to day of specific requests that it be furnished with specified items of equipment or supplies. These requests are technically known as "requisitions," and for that reason the service making them is usually designated as the "requisitioning service." They are addressed to the supply division, if the service maintains such a division, or to the warehouse or stores, but, for reasons that will be pointed out, they should be forwarded through the office of general administration.

These requisitions may be in various forms and call for the furnishing of different classes of data. They may show the character and quantity of the articles desired, and the quantity of such articles already on hand, the use to which the articles will be put, and the estimated cost price. It is beyond the scope of the present work to enter into any discussion of the precise character the requisition should take. Much will depend upon whether an effort is made to operate a system of cost accounts and other factors. All that can be done is to point out the general character and purpose of this document.

As regards the third duty, that of using the equipment and supplies in an economical manner, nothing further need be said than that this duty exists and that in certain cases special means may be employed for ensuring that it be met.

**Function of the Office of General Administration.** It has been pointed out that requisitions for equipment and supplies, instead of being sent directly to the division of supplies or to the keeper of stores, should be forwarded through the office of general administration. This is necessary in order that the latter may currently secure information regarding this phase of administration and that it may properly exercise its function of control. Operating units are concerned each with its own work; they have no responsibility for, and often but little interest in, protecting the general financial interests of the service. It is but natural that their tendency should be to seek to secure the best character and quality of equipment and supplies and in quantities representing a safe margin over their real needs. If the general financial interests of the service are to be safeguarded and economy in the use of equipment and supplies secured, it is imperative that the requisitions as they emanate from the operating units shall be passed upon by some officer representing the Office of General Administration. In the national government this officer is usually the chief clerk or the head of the service itself.

The requisition form usually provides a place for the signature of such officer as evidence of his approval of the requisition. If the requisition is disapproved or modified, means should be provided for notifying the requisitioning unit of that fact. After the requisition is approved, it is forwarded to the supply division or keeper of stores for action.

**Function of the Supply Division.** A large amount of unnecessary labour would be involved if operating services made requisitions on "stores" only as immediate need arose. It is desirable, therefore, that each service, and in some cases important subdivisions of a service, shall keep on hand a reasonable quantity of supplies of current consumption. The organization unit having charge of this stock is usually designated as the supply division, and it is upon it that the requisitions of operating units are drawn. It in turn makes requisition upon general stores for the replenishing of its stock and for special equipment and supplies not carried in its own stock.

A division of this kind has other advantages than that of acting as a depot that can furnish supplies more promptly than general stores. It furnishes the means for centralizing all work in a service having to do with material: Its chief and staff members constitute the technical advisers of the service in the matter of determining the character of equipment and supplies to be secured, and in the preparation of specifications, etc. Its records will furnish the information needed regarding stores secured and used, the quantities used by the several subdivisions of the service, etc. Finally, if the service has its own independent supply service, this division will be its procurement service and will have charge of both the purchase and the custody and issue of supplies.

**Function of the Procurement Service.** The function of the procurement service overshadows in importance those of all the other divisions that have been described. Its duties go to the heart of the whole supply problem. Upon the efficiency with which this service is organized and operated depends in large part the efficiency with which this branch of administration is performed. Analysis shows that its responsibilities have to do with the following matters:

1. Preparation of specifications and contract forms.
2. Purchasing.
3. Inspection and checking of deliveries.
4. Custody and issue of articles carried in stores.

In respect to the first of these, preparation of specifications and contract forms, it can hardly be stated too strongly that responsibility for the determination of the character of equipment and supplies

needed rests primarily upon the operating units. An unfortunate weakening of responsibility would result if a procurement service could dictate to an operating unit the character of material that it shall have. To this general statement the following qualifications should, however, be made. It has been pointed out how desirable a standardization of specifications is. The procurement service is the organization acting for all the operating units, and upon it, therefore, falls the duty of performing the work involved in securing such standardization. This means that that service should consequently scrutinize the drafts of specifications as prepared in the rough by the requisitioning services with a view to modifying them so as to make them conform to standards already adopted. When the modification is other than a formal one, the matter should always be taken up with the requisitioning service, and if an agreement cannot be reached it may be necessary to refer the matter to the head of the service for decision. Questions of this character will only be frequent during the period in which the problem of standardization of specifications is being worked out. Thereafter most requisitions will call for articles according to their specification code number. Furthermore, in the preparation of new specifications the operating services can often profit by taking the advice of expert staff members of the procurement service.

The elements entering into the operation of purchasing have already been described. The only point that it is desired to emphasize here is the desirability that this function of purchasing shall as far as practicable be completely segregated and placed in the hands of a separate procurement service. This is desirable for three reasons: first it is desirable that those charged with operations proper shall, as far as possible, be relieved of all collateral obligations and responsibilities and be placed in a position where they can devote their whole attention and energies to the performance of their special, technical duties; second, as has been pointed out, the operation of purchasing is one involving a high degree of special knowledge and skill and should be performed by specialists; and, third, only through the centralization of purchasing can an adequate central control over this feature of administration be exercised.

Though the principle to be followed is that of centralization of purchasing or procuring, it must be recognized that there are cases where it is expedient to depart from it. It is often desirable that operating services shall have the authority to purchase certain articles of a perishable character, such as food products, for the furnishing of which reliance must be had upon local dealers, articles required in small quantities to meet unusual emergency needs, and, sometimes, articles of a highly special and technical character.

Most purchasing systems make provision for such cases. Experience, however, has shown that operating services are prone to abuse the power of making purchases conferred upon them. It is necessary, therefore, that the regulations permitting such purchases shall be so drafted as to reduce the danger of abuse to a minimum. Furthermore, it is desirable that provision shall be made for the reporting of all such purchases to the central procurement service in order that the latter may have information regarding the transaction and that its records may be complete in respect to all articles of equipment and supplies procured for the service of which it is a part.

A procurement service has performed only a part of its duties when it has entered into contracts for the furnishing of articles needed. It still has the obligation of seeing that these contracts are lived up to by the vendors and particularly that the articles delivered correspond in quantity and quality to those ordered. To meet this obligation it is necessary that the procurement service shall organize and operate a special service having for its duty the inspection and checking of deliveries. In many cases this means that technical equipment and expert personnel will be required in order to make the tests required to determine character and quality. In part the procurement service will find it desirable to have such equipment and personnel under its immediate direction as a part of its organization. In other cases it will be advantageous to make use of the technical equipment and personnel, either of the service for whose use the articles to be tested are intended or of other technical services of the government.

Where the requirements of the operating services are of a special or technical character, it will be necessary for them, in many cases to establish a special technical section of engineering, research design, testing, etc. Full use should be made of such services by the procurement service. In the case of the national government, use should be made of such services as the Bureau of Standards in both the preparation of standard specifications and in the testing of articles purchased. Responsibility for seeing that this work of inspecting and checking deliveries is properly done should belong to the procurement service, since until there can be assurance that deliveries correspond to purchase orders, vendors' claims for payment cannot be certified to the accounting and disbursing office for settlement.

To the extent to which the practice is followed of purchasing articles in advance of requisitions and carrying them in stores, the procurement service is the one that should have the custody of such stores and the duty of issuing them in meeting requisitions. When the procurement service is a large one it will probably, as a matter of internal organization, set up special divisions for the

handling of its several classes of work, purchasing, warehousing, inspection, etc.

**Supply Documents.** In Part IV, dealing with problems of finance, it will be pointed out that one essential of a proper financial system is the preparation of formal documents giving all the data needed for informational or control purposes regarding all transactions of a financial character. These documents constitute the original records of the transactions to which they relate as distinguished from the book-keeping and other entries that are made from them, to which resort must be made in the conduct of an audit or other inquiry where the correctness or justification for any such secondary showing is questioned. The purchasing procedure of a service must, therefore, provide for the due execution of documents which will furnish such a record of all supply operations.

It is evident that there is room for wide divergence of practice in respect to the number, form, manner of execution, and writing of these papers. The devising of a proper documentary system for the handling of supply matters constitutes one of the important technical problems of this branch of administration. Into this problem we cannot here enter further than to indicate in a summary way the nature and purpose of the more important documents that any system of a large service must have. These consist of the standard specifications, the requisition, the invitation for bids where competitive bids are called for, the bids received, the report of the officer or committee making the award determining the successful bidder, the purchase order through which the purchase is actually ordered, the invoice accompanying or separately forwarded evidencing and describing the shipment, the certificate of receipt and inspection of the goods as to their quantity and quality the voucher evidencing the completion of the transaction and ordering payment, and the check through which payment is actually made. It may not be necessary in all cases to have separate documents evidencing each of these steps. Indeed, as far as is practicable the same document should contain parts permitting of the insertion of the several classes of data called for. What is important is that the documents shall furnish a complete written record of the transactions and bear all the certificates or signatures required to show that this record is a true statement of what has been done.

The documents that have just been described constitute the original or primary evidence of the transactions in relation to supply. The data therein presented must be currently recorded in books or on cards for the purpose of giving information regarding the results of these transactions as they affect financial and administrative conditions. Especially is it essential that the division of supply and the division of stores of the procurement agency

shall maintain records showing the quantity of all articles purchased, received, and issued. It is evident that if this record is carefully kept the difference between receipts and issues will reveal the quantity on hand. This information which is desirable should always be available. At regular intervals of time, and usually as often as once a year, this record of stock on hand should be checked through the making of a physical examination or inventory. The books of the accounting and disbursing office will of course show all disbursements on account of the purchase of supplies and the corresponding charges to the appropriation or allotment heads.

**Property Records.** Though, as has been stated, our purpose has been to consider only those problems of material which deal with what is known as supply, a brief mention at least should be made of another phase of this branch of administration; that, namely, of the information that should be possessed by governments regarding their fixed property in the form of plant and equipment. Information regarding this class of assets is desirable both from the standpoint of knowing the facilities that the government has for carrying on its work and from that of control for the purpose of ensuring that such assets are not converted to private use and a due account for them may always be had.

The best method of securing this information is that of requiring that each operating unit shall maintain an accurate record of all fixed property acquired by it or over which it exercises jurisdiction, and that it shall annually make a return to the central office of the service of which it is a part. Records of this kind can best be maintained through the use of cards which will permit of a classification of the different classes of fixed assets, and the keeping of such records currently revised to date. With such a system of record cards, not only will each operating unit have readily available information regarding the property of which it has custody, its cost, date of acquisition, etc., but the central office will also have a knowledge of the plant, equipment, and other permanent property of each of the subordinate units over which it exercises general direction. On the basis of this information, the central office can exercise a control over the fixed property in the possession of the subordinate units, and determine the extent to which approval should be given to requests from those subordinate units for additions to plant and equipment.

As will be pointed out in Part IV dealing with problems of financial administration, provision must be made by all governments for an audit by an independent officer that will ensure that all officers having the receipt, custody, or expenditure of moneys duly account for all such moneys coming into their possession. It is held



by some that such auditors should have the same function of securing a due accounting for all tangible property coming into the possession of administrative officers that they have with respect to the receipt, custody, and disbursement of cash. The administrative difficulties and expense involved in maintaining such a system are so great that this may not be practicable in the case of large governmental organizations, though it may be practicable in the case of small and compact organizations such as cities and other local political subdivisions. It would seem to be quite feasible, however, that the requirement should exist that an annual return of fixed property should be made to the auditor and that the latter should have the authority to verify such returns when conditions seem to render such verification desirable. This would set up a strong moral check upon the administrative services, enable the auditor to investigate cases where grounds may exist for the belief that government property has been made way with or converted to an improper use, and give him valuable data regarding the value of fixed assets for inclusion in his annual financial report.

In concluding this analysis of the problems of material or supply it is desired again to emphasize that no attempt has been made to present anything in the nature of a technical treatise on purchasing, warehousing, or other features of the supply problem. All that has been sought to do is to make known to the student of government and the general administrator the elements entering into this branch of public administration, the problems that it presents and the character of action that must be taken in meeting them. Our account, in a word, is intended to do little more than offer a general introduction to the subject.

## CHAPTER XXVII

### A CENTRAL SUPPLY SERVICE

In the preceding chapter we have considered the problem of supply as it presents itself to a single self-contained service. The administrative branch of all governments, except those of petty political subdivisions, includes a large number of services. In the national government and in certain of the states these services are for the most part grouped for general administrative purposes into departments. The position has been taken that it is highly desirable, from the standpoint of economy and efficiency in administration, that the function of procurement within each service shall be centralized in a single agency. The existence of these several services, all constituting integral parts of one administrative system, raises the analogous question as to whether it is not advisable that this policy of centralization should be carried further so as to provide for a central supply service for each department or for the government as a whole. The importance of this question is such that we have thought it advisable to make it the subject of a special chapter.

**Advantages of a Central Supply Service.** The arguments in favour of the creation of a central procurement service to function for all the services of a department or the entire government are, it is believed, overwhelming. They may be summarized as follows:

1. The securing of the economy and increased efficiency resulting from the application of the general principle that work of a definite, technical character can be more efficiently done by a single adequately equipped and staffed agency than by a number of agencies which, in the nature of the case, must be less well equipped and manned.

2. The increased economy and efficiency in the conduct of the several operating services resulting from their being relieved of the necessity of concerning themselves with technical problems of procurement and, thus, being able to concentrate their attention more wholly upon their special operative duties.

3. The opportunity thereby offered to put into full effect the principle of the standardization of specifications and contract forms; and, thereby, to reduce to a minimum the variety of articles of the same class used by the government.

4. The economy resulting from the purchase of articles in large quantities.

5. The reduction in the quantities of articles that must be carried in stores.

6. The greater efficiency with which the matter of inspecting and checking deliveries, for the purpose of making sure that they correspond, in quality, as well as quantity to goods ordered, may be handled.

7. The provision of means through which a centralized control over this branch of administration may be exercised and information regarding the consumption of supplies secured in such a form that accurate comparisons between services may be made.

8. The reduction in the work involved in the examination, settlement, and payment of vendors' claims, due to the fact that the number of separate transactions will be decreased.

9. The simplification of the problem of prospective vendors due to the fact that they will have to deal with a single agency whose procedure and practices are uniform instead of a number of different offices, no two of which may have the same requirements or carry on their business in the same way.

Any one of these advantages might be elaborated. Their force, however, can, probably be best brought out by a statement of the disadvantages and evils characterizing a procurement system where no attempt has been made to centralize the performance of this function or to set up any adequate means of central control over the supply operations. Such a statement was graphically made by William A. Pendergast, Comptroller of the City of New York, in a report prepared in 1913 urging the creation of a central agency for the purchase and distribution of the supplies needed by the city departments.<sup>1</sup>

There are under the government of the City of New York one hundred and twenty different departments, bureaus, boards, commissions and offices in the various heads of which is vested the power to purchase supplies. When the new municipal building in Park Row is fully occupied there

<sup>1</sup>Report submitting plan of proposed system for the central purchase and distribution of supplies for the City of New York: Together with all the forms necessary to carry the system into full operation and effect, including legislative measures to make the plan effective. William A. Pendergast, Comptroller, March 15, 1913.

will be, under one roof, no less than forty-eight city purchasing agents, or two on each occupied floor of the building, each buying practically the same lines of supplies.

In no two departments of the city are the methods and customs the same. There is no uniform system of making, recording and accounting for purchases. In this respect each department is a law unto itself. No central records are maintained showing the relative cost of supplies bought by different departments. Each proceeds in utter ignorance of what the other is doing. There is absolutely no means of making the experience and knowledge acquired by one department of practical value to another. The larger the quantity purchased the lower the price is one of the fundamental laws of supply and demand recognized in every modern purchasing system. Not only do the city's purchase methods ignore this law, in dividing the gross quantities of supplies needed into the smaller quantities required for over one hundred different departments, bureaus, boards, commissions and offices, but, in some of the largest purchasing departments, a further division is made of the quantities needed for bureaus and institutions within a single department. The result is that the city is buying at retail, millions of dollars worth of supplies annually which it could purchase at wholesale prices, or even less. Tabulations prepared by the Commission on Standardization of Supplies shows a remarkable variation between the prices paid, under publicly advertised contracts, for the same supplies by different departments, even upon uniform standard specifications.

One of the greatest and most costly evils in the city's methods of purchasing supplies is the abuse of what is known as the open market order method. The city charter makes it obligatory upon all department heads to buy supplies upon publicly advertised contracts, but permits purchases, not exceeding \$1,000 at any one time upon open market order without competition. It is obvious that this charter permission to procure supplies upon open market order was intended to cover only small emergency purchases . . . . It is axiomatic with large commercial corporations that emergency purchases of supplies shall not exceed three per cent of the entire expenditure for that purpose. That the emergency purchases of the City of New York exceed thirty per cent of the whole, is clear evidence that the departments are continually in the habit of splitting supply orders so as to bring open market orders within the legal limit of less than \$1,000 at any one time.

The enormous number of vouchers for the payment of supplies, which have to be prepared and recorded by the purchasing departments and recorded and paid by the Comptroller, due to the splitting up of the quantities of supplies purchased upon contract and the flagrant abuse of the open-order method of purchasing, unnecessarily delays the payment of bills for supplies purchased by the city. Not only does this delay very considerably increase the cost of supplies directly on the prices bid on contracts, but it has a very great effect in deterring the best business firms in the city from competing for the city's business. This is one of the principal reasons why irresponsible and high priced middlemen are so often the successful bidders for the city's supply contracts.

**Function of a Central Supply Service in Respect to the Handling of Surplusage.** In the foregoing we have considered the advantages of a central procurement service solely from the standpoint of the acquisition or purchase and distribution of new articles. A branch of the question of supply having a close relationship to that of procurement is that of the avoidance of the necessity for the purchase of new equipment and additional supplies through the utilization of equipment and supplies no longer needed by services having possession of such articles and the realization of the greatest possible return on supplies no longer suitable for use or needed by any service of the government.

The savings that are possible in a government such as that of the United States in this field run into large figures. Special commissions are constantly being created to make special investigations or to perform other work of a temporary character. During the war there was an enormous expansion of the permanent services and many special war agencies were created. All of these had to secure additional or new equipment and supplies on a large scale. Much of this equipment and supplies is now available for other use. It is understood, for example, that the government now has in storage thousands of typewriters. Even under normal conditions, the several services are constantly accumulating equipment and supplies to meet emergency or anticipated needs for which later they do not have need. In the past, and it may be to a considerable extent at the present time, one service will be acquiring new equipment and supplies by purchase while another service is disposing of precisely the same articles at a sacrifice sale or has them lying idle in storage.

It is evident that a correction of this uneconomic procedure can only be had through the organization of some central agency, or the entrusting to some central agency already in existence, the

duty of acting on behalf of all the services of a department or of the government as a whole in respect to the utilization of this surplusage.

This agency can act in two ways: it can limit its activities to serving as a clearing house of information regarding surplusage available; or, it can serve as an agency having the duty of receiving from the several services the physical custody of surplusage and the subsequent issue to services having need of it. The second method is probably the one which in the long run will be found the more advantageous. If this material is brought together and classified, it is possible for the services requiring new equipment and supplies more easily to make a physical inspection of it for the purpose of determining whether articles meeting their needs are to be found among it. And this advantage of having surplus equipment and supplies turned over to the central agency, even though such material may not be transported to a central warehouse, lies in the better terms that can be secured for that portion of the surplusage which it is found desirable to dispose of through sale to private concerns and the simplification of the procedure involved. Almost the same precautions against fraud and collusion are required in the case of the sale as in the purchase of commodities. When the quantity and value of articles to be disposed of are relatively small as is apt to be the case where each unit of a service or even each service of a department or the government acts independently, it is often difficult to secure a purchaser at any reasonable price, and the return received scarcely compensates for the trouble involved. Furthermore, it is to be noted that the services having the disposal of this material are, under present conditions, not interested in the financial results of the sale, since the moneys realized are not added to their appropriations but are covered into the general treasury as miscellaneous receipts. Due to this, they often prefer to avoid the trouble of a sale by condemning the material as of no value and ordering its destruction.

These evils would all be corrected by setting up a central agency having for its function to receive, store, and reissue surplus equipment and supplies or the final disposal by sale to the public. Due to the fact that its sales would be on a relatively large scale, it could secure much greater publicity for its offerings. And due to the fact that one of its prime functions would be that of the sale of government property, it would be under a direct incentive to make the best showing possible in the way of cash returns upon sales. Incidentally, the several operating services would be greatly benefited by being relieved of the responsibility and trouble of disposing of their surplus property by sale and of accounting for the moneys received.

In 1918 a beginning was made towards the erection of the General Supply Committee into a service to act as a clearing house for surplusage. In his annual report for 1919 the Secretary of the Treasury has the following to say regarding what was done in this way.

After the signing of the armistice, it became apparent that large quantities of office material, supplies, and equipment would become surplus because of the cessation of war activities, and on December 3, 1918, the President, on the recommendation of this department, issued an Executive order directing that surplus material, supplies, and equipment falling into disuse because of the cessation of war activities, or for other reasons, be transferred to the Secretary of the Treasury for reissue to other Government establishments through the General Supply Committee. Under that order the General Supply Committee functions as a clearing house for the executive departments and independent establishments of the Government in the district of Columbia, in that it takes over all the surplus material, supplies, and equipment, classifies, warehouses, repairs, and reissues it from time to time to other governmental establishments as their needs arise. In making purchases from available funds for needed office material, supplies, and equipment the order required the several executive departments and independent establishments and the municipal government of the District of Columbia to buy from the stores of the General Supply Committee if the articles were obtainable from that source.

To carry the order into effect, the Congress granted an appropriation of \$100,000 for the remainder of the fiscal year 1919 and for the fiscal year 1920, and stipulated that the Executive order shall continue in effect until June 30, 1920, without modification, except that proceeds from the transfer of appropriations thereunder shall be covered into the Treasury as miscellaneous receipts.

From December 10, 1918, to June 30, 1919, there was transferred to the General Supply Committee \$1,031,948.54 worth of material, of which \$555,195.34 worth was issued. That amount includes discounts allowed on account of deterioration from use which equalled  $15\frac{4}{5}$  per cent. The balance chargeable to stores account was, therefore, \$476,753.20. The total expense of operation, that is, overhead charges, for the period mentioned was \$24,297.30, or  $4\frac{3}{10}$  per cent of gross sales.

Section 5 of the act approved July 11, 1919, provided that the heads of the several executive departments and

other responsible officials, expending appropriations contained in that or any other act, so far as possible, should purchase material, supplies, and equipment, when needed and funds were available, from other services of the Government possessing material, supplies, and equipment no longer required because of the cessation of war activities,

To carry out that provision of the law, the duties of the General Supply Committee were further increased by the Executive order of August 27, 1919, by which the committee was designated as a central body of information with respect to supplies, and, as such, to receive reports of all surplus material, supplies, and equipment available by reason of the cessation of war activities in Government services throughout the United States. Record of material reported as surplus is maintained in the committee for the information of all Government departments and establishments.

There has been transferred to the General Supply Committee, under the Executive order of December 3, 1918, certain motor equipment, which it is unable to sell to other services of the Government. This consists of a number of old and badly worn trucks, automobile bodies and motor cycles, which it would appear to be to the interest of the Government to sell at public auction. It is, therefore, recommended that the necessary authority be granted to permit the sale of equipment now or hereafter transferred to the General Supply Committee, for which there is no demand, and the sale of which would be in the interest of the Government, and further that, in the case of articles purchased at high prices during the war, the committee be allowed to transfer them to governmental services at a fair market value.

**Function of a Central Supply Service in Respect to the Repair of Equipment.** Closely allied to this matter of the utilization or disposal of surplusage is that of the repair of equipment. Many subdivisions of a service and many services as a whole are not of sufficient size to warrant the maintenance of shops for the making of current repairs of equipment. Moreover, as in the case of the disposal of property by sale, the services often find the trouble of securing repairs greater than the return is worth. Equipment is consequently frequently condemned when comparatively slight repairs would make it serviceable. A central agency, on the other hand, with its larger operations would find it well worth while to maintain shops to inspect all equipment received and repair that



is found worthy of repairing. Often a little paint or varnish or the insertion of a few screws will make an article as good as new.

If a central service to have charge of the repair of equipment and the utilization and disposal of surplusage, such as is here suggested, is to work successfully, certain things are required. In the first place, the several operating services should be required, at regular intervals of time and at least as often as once a year, to make an inventory or survey of equipment and supplies in their possession for the purpose of determining the articles for which they have no present or prospective need and to turn them over to the central surplusage service. Secondly, the surplusage service should at once carefully inspect all articles so received and determine what articles should be repaired, what disposed of by sale, and what held for reissue. Those deemed worthy of repair should be repaired, those set aside for sale should be sold, and those held for reissue, carefully classified and listed. The list should be kept revised to date and copies of it furnished from time to time to all government services. Thirdly, the operating services should be required to resort to this service in satisfying their material needs. The law or regulation covering this requirement may take the form of making it obligatory upon all services to secure articles needed from this service in so far as it can supply them before resorting to purchase from outside dealers; or it can content itself with making it advantageous for the operating services to acquire articles in this way by having the surplusage service charge for articles furnished by it at prices representing a material percentage reduction of the prices of new articles.

A matter of no little importance involved in this system is that of the financial relations that should exist between the central surplusage service and the other services. One system would be that of giving the surplusage service financial autonomy by providing for its financing through a revolving fund. Under this system the surplusage would in effect purchase from the operating services their surplusage, which it would then realize upon by resale to other services or to the public. No actual transfer of cash would be required in such transactions, since the amounts representing the value of the articles received would merely be set up on the books as credits of the services from which received, against which charges would be made for articles supplied. Prices charged should be sufficiently higher than those paid to provide a margin from which to meet operating expenses. When purchases were made by a service in excess of its credits, the excess would have to be met by a transfer from its appropriations for the purchase of the articles concerned. Something of a question is presented in respect to the treatment of balances of credits standing to the credit of the several operating services on the books of the surplusage

service. It is believed that the best method of handling them would be their canceling. This would benefit to that extent the revolving fund of the surplusage service. Due to this fact, it is probable that that service will from time to time have a surplus in its revolving fund that can be returned to the general treasury.

The great advantages of financing the supplies service through a revolving fund lies in the clear segregation of the operations of this service which have to do with the internal financial accounts of the government from those having to do with outside agencies and in the reduction of the accounting work of the treasury.

In conclusion it need hardly be said that if provision is made for a central procurement service to serve all the services at Washington, what is here termed a surplusage service should be made a subdivision of that service rather than set up as an independent agency.

**Objections Urged Against a Central Supply Service.** Though the arguments in favour of the establishment of a central supply service are numerous and weighty, it must, nevertheless, be recognized that, not only have the operating services of governments in many cases strongly opposed the creation of such a service on the ground that under that system their freedom in securing the kind of supplies needed by them was interfered with and that delay would be encountered under the system in getting prompt deliveries, but they have also complained that the disadvantages predicted by them have actually been experienced where such a centralization of the supply function has been encountered.

The writer has in certain cases examined into the validity of these complaints. In most of these cases he has found that there was some ground for complaint. In all cases, however, he has found that the trouble lay either in the fact that the new system had not been in use long enough for the central service to perfect its organization and procedure and for the operating services to accustom themselves to the new procurement procedure, or because the system established had not been organized and operated upon a proper basis. One defect that was especially in evidence was that the operating services had not made a sufficiently careful study and statement of their material needs. It has already been pointed out that it is desirable that each service should undertake the preparation of its procurement program that is its best estimate, based on a special study, of the character and amount of all of its material needs for the year to follow. This is needed, if for no other reason, in connection with its estimate of appropriation needs. In comparatively few cases has this been done. Under the old system where it could purchase in small lots by open market order, it did not feel

the need of doing this. A centralized supply system requires that this shall be done, in order that it may know in advance the character and quantity of articles that it must contract for or purchase and the character and quantity of equipment and supplies that it ought to carry in stock. If the operating services will do this in a satisfactory manner, it is believed that most of the trouble which they now find in the central purchasing system will disappear.

**Centralization of Other Supply Services.** Up to the present time we have considered the problem of supply solely from the standpoint of the procurement and distribution of material articles of consumption. The word "supply" is, however, susceptible of the broader connotation of including services as well as physical objects. Used in this larger sense the expression "supply" embraces the procurement of personal services, or personnel, the execution of printing, engraving, etc., and the provision of housing accommodation or quarters. What is of equal significance, most if not all of the arguments that have been addressed in favour of the centralization of the work of providing for the supply of material objects apply with equal force to the provision of the other services that have been mentioned.

It has already been pointed out in the consideration of the problem of personnel that in the creation of the Civil Service Commission the national government has in effect made provision for a central supply service for the procurement of personnel. In the creation of the Government Printing Office similar provision has been made for a central printing supply service. It is within the memory of the present writer when many of the administrative services of the government had their own printing plants or made use of private printing establishments. Few would now question the advantages that were secured through the centralization of this work in a single plant.

Only in the past two or three years has any progress been made in the direction of the centralization of the function of supplying quarters of the administrative services at Washington. The first step in this direction was made by the legislative, executive, and judicial appropriation act of March, 1, 1919, which contained a section providing for the creation of a permanent commission to be known as the Public Buildings Commission, to have full control over the allotment of space and utilization of all buildings owned or rented for the use of the national government of Washington with the exception of two or three specially designated buildings. The section providing for this commission reads as follows:

With a view to the control and allotment of space in owned or leased government buildings in the District of Columbia, a Public Buildings Commission is hereby created

to be composed of two Senators to be appointed by the President of the Senate and two Members of the House of Representatives to be appointed by the Speaker, who shall serve there only so long as they are Members of Congress, and the Superintendent of the Capitol Building and Grounds, the officer in charge of public buildings and grounds and the Supervising Architect or the Acting Supervising Architect of the Treasury during any vacancy in said office. Said commission shall elect one of its members as chairman of the commission and is authorized to employ such expert clerical or other services as it may deem necessary. Any vacancies in said commission shall be filled in the same manner as the original appointments were made.

Said Commission shall have the absolute control of and the allotment of all space in the several public buildings owned or buildings leased by the United States in the District of Columbia, with the exception of the Executive Mansion and Office of the President, Capitol Building, the Senate and House Office Buildings the Capitol Power Plant, the Buildings under the jurisdiction of the regents of the Smithsonian Institution, and the Congressional Library Buildings, and shall from time to time assign and allot, for the use of the several activities of the Government, all such space.

For expenses of said commission, \$10,000 to be immediately available and remain available until expended and to be paid out in vouchers signed by the chairman of the commission.

It will be seen from the foregoing that Congress by this provision created what is in effect a general supply service. Of the need for such a service there can be no question. United it had been created there was no general organ whose duty it was to settle disputes between the several services of the government in respect to the quarters to be occupied by them, or to take those steps which were necessary to ensure that the most effective use was made of quarters available. One service might be cramped for space and the work suffer in consequence while another service had more room than it required to meet its legitimate needs. Great waste resulted from the fact that services were constantly incurring expenses in securing additional quarters while space under the jurisdiction of other services was available. The situation, in a word, was one which could only be met by the vesting of authority in some agency having a general jurisdiction over all administrative services to control and allot government quarters.

The object sought by the creation of the Public Buildings Commission was in every respect praiseworthy. The only question that

it is desired to raise here is as to the propriety of vesting this control in a congressional agency. There can be no doubt that the future of the duties of this commission are of a purely administrative character and that in any private undertaking this would fall within the scope of the functions of the general manager. As pointed out in the consideration of the problems of organization, it is to be hoped that provision will be made for the reorganization of this commission as a distinctly administrative agency.

**Movement for Central Purchasing in the National Government.** Until the establishment a few years ago of the General Supply Committee, which now functions as a service under the Treasury Department, all of the evils of decentralized purchasing were markedly in evidence in the national government. This committee was first established by Executive order, dated May 13, 1909, which provided that it should be composed of representatives from each of the executive departments and certain other government bodies. A year later it was given a statutory status by the insertion in the legislative, executive, and judicial appropriation act of June 17, 1910, of a section to that effect. This body, it should be noted, was not a central supply service in the proper acceptation of the term, since its function was limited merely to that of contracting with vendors in respect to the prices to be charged in furnishing enumerated supplies to the several government services. The latter still retains the duty of making purchases and attending to all the other work involved in procuring, inspecting, and storing of supplies and the payment of bills rendered.

The creation of this committee was, nevertheless, an important step. The arguments in favour of more complete centralization were so excellently stated by the Secretary of the Treasury in his annual report for 1919 that we cannot do better than reproduce what he there says regarding this matter. Under the heading "Contracting and Purchasing," he writes:

As the business of the Government expands, there is an increasing need of centralization under some one authority of the great problem of contracting for and purchasing Government supplies. An initial step in this direction, with respect to contracting for supplies for use primarily by the Government services in Washington, was made by the establishment of the General Supply Committee, but the scope of its work is narrow at best. Within its limited field of operations it has accomplished something in the reduction of purchase prices, but has left untouched the disadvantages to the public service at large which arise from a diversification of administrative views as to general

and special needs and from a similar diversification in the form of the contract obligations assumed under the different branches of the service.

Similarly the establishment of Government fuel yards as authorized by the act of July 1, 1918, was a step in the general direction of centralized control to the advantage of the public service. But again the field of operations was made a limited one and its benefits confined to the branches of the Federal service and the municipal government in the District of Columbia and immediate vicinity.

These measures would seem to cover but a fraction of the general requirements for central control over contracting and purchasing. There is no good reason why the field of operations of a centralized authority of this character should be confined to a lesser territory than that marked by national boundaries, or why the benefits of organization, business, judgment and efficient methods should be employed only locally when the need for them is as widespread as the public service itself. It is thought that the whole needs of the Government in matters of contracting and purchasing, without regard to geographical points at which such needs may arise within the continental limits, could be as well, or better, served by the establishment of a central machinery as can the needs at any given point, such as the District of Columbia.

It cannot be questioned that procuring supplies, including contracting for supplies for works of construction and manufactured articles or fabricated materials, is a task single in its nature, and one which would lend itself to central organization properly planned and equipped for its purposes, with a permanent chain of depots and warehouses for supplying expeditiously the requirements of all headquarters and field services. Of nearly equal importance in the advantages to be gained are the two questions of improved efficiency at lower operating cost and the securing of supplies at lower prices. At present, without previous co-operation, the various branches of the public service are competitors among themselves in the markets which they seek, and their similar needs often operate to increase prices for each other under the general rule of supply and demand. This is an administrative problem of great importance in the interests of economy and efficiency, and I am sure that it will require but a cursory examination of the waste and duplication that inevitably must accompany the present system to make manifest the desirability for some drastic reform along the lines suggested.

The view has been advanced from some quarters that certain branches of service, whose requirements are specialized or highly technical in character, would not obtain satisfactory results except through their own personnel. It is not seen that this view is tenable upon an analysis of the situation. If technical or expert services are available now in the various establishments of the Government, the same services could be utilized by a central control. The more or less centralized machinery brought into operation by the necessities of the world war may be cited as an answer to objections of this character. In practically all branches of the public service dealing with war activities the business control of technical equipment and its procurement was placed in the hands of others than the technical experts whose knowledge was essential to the design and choice of the equipment itself. Similarly, and more effectively perhaps, a central business control of procurement and distribution in time of peace can avail itself of expert services and technical knowledge whenever found within the Government. The fact that business men from civil life were called upon in a period of urgent haste to undertake the procurement through commercial channels of highly specialized articles of fabrication or manufacture and that their efforts were successfully applied with the co-operation of the technical experts within the service, is a sufficient indication that a central business control of procurement is not incompatible with the control by the appropriate branches of the character and choice of their technical supplies.

Aside from the economies to be derived from the application of good business judgment to purchasing, storing, and distributing, the establishment of a central control would have an influence of the utmost value in the contractual relations of the Government. Under the present divided control these are lacking in the uniformity which should obtain, and for that reason occasion many adjustments by the Treasury in the settlement of legal claims which might be avoided under a system of standardization of contract forms and management. The prevailing deficiencies in this respect came into view to an unprecedented degree as a result of recent war activities and have served to bring the subject into fresh and serious consideration. It will be recalled that a condition existed in contract affairs which necessitated legislative action for their adjustment not wholly within the strictly legal obligations of the Government.

It will require a trained and skilful organization, with all the facilities necessary for expansions in periods of emergency, if like experiences are to be avoided in the future. Under the urgency of the moment contract forms were disregarded in features essential to the interests of the Government and in many cases were entirely supplanted by informal agreements, written and oral. Form and procedure imposed by present laws were quite generally disregarded, and often were unknown to the officials drawn from civil life and charged with the procurement of supplies because of their knowledge of industrial conditions. It is obvious that an established and effective central control, capable of expanding its facilities as circumstances require, would meet emergencies with greater security to the interest of the Government and contractors alike.

In the Government's everyday affairs, however, the need is just as urgent, and a lack of uniformity in the written instruments of contract is not alone responsible for the numerous claims against the Treasury. Faulty form and lack of standardization are supplemented to the disadvantage of the Government and contractors by the uncertainty and differences of construction rendered by administrative officers during the period of fulfilment, by unwarranted administrative acts in contravention of explicit terms of contract, both for and against the interests of contracting parties, and by all the many omissions and commissions which are due to the absence of a single supervision.

It is thought that these and a host of evils not touched upon can best be eradicated by combining in one establishment the adequate authority for contracting and purchasing, with all needed facilities, and unlimited as to its field of operations within the United States. To state it in its simplest form, it is a mere matter of combining in one establishment the classes of business common to all, with proper provision for specialized needs. It is not open to doubt that such action would redound immeasurably to the benefit of the public treasury and relieve all branches of the public service of a burden of duties not now administered satisfactorily to the disbursing and accounting authorities. Nor is it open to doubt that it can be effectively accomplished.

Something might be said of the advantages which would accrue to the public interests from measures which might be designed to cure specific evils alone, such as requiring as separate considerations greater uniformity in contract



forms and methods of contracting, a revision of the statutory requirements as to advertising and proposals, and kindred reforms, each desirable in itself. But these would leave unsolved the really big problem presented by the situation as a whole. As has been pointed out in the annual report of the Comptroller of the Treasury, the sums involved are large, the public interests concerned are vital and far-reaching, the administrative and accounting duties are complex and burdensome, and the private interests concerned are equally important, often involving the business success or failure of contractors. The contract requirements of the Government standing alone constitute almost a department of Government in themselves, with their own legal and equitable considerations, and a mass of laws and court decisions surrounding their fulfilment, adjustment and settlement. The present moment, with the experiences of the war fresh in mind and much data available for consideration, would seem to be a propitious one for the study of all purchasing and contracting needs and the proper establishment of machinery necessary to an efficient, expeditious, and economical fulfilment of those needs for the purposes of both ordinary periods and periods of crisis.

It has been considered whether some action might be taken by executive authority, in the absence of legislative enactment, to bring purchasing and contracting operations as found in the various departments and independent establishments into some sort of correlation for the entire executive branch of the Government, but it is thought that the magnitude of task and its intimate contact with all agencies of that branch argue for a completeness of control and such legal authority for the step as can be granted by the Congress alone.

A proper regard for economical and efficient administration, its bearings on the public treasury, and the judgment of competent critics all combine to urge the establishment of such an agency as the one proposed. Unlike many projects for which consideration is so often asked, it would unify and tend to contract rather than expand the administration of present activities.

In advance of provision for the centralized control of all contracting for and purchasing of supplies for Washington and the field, as recommended above, it is urgently suggested that prompt measures be taken at least to remodel and expand the functions of the General Supply Committee, which at the present time is only an agency of contracting

for government supplies. In the absence of the suggested general legislation, a plan should be evolved under which common supplies required for use by two or more of the executive departments or independent establishments of the Government in Washington would be contracted for, purchased, stored, and distributed through a single bureau. In lieu of the General Supply Committee there should be created a bureau of supplies consisting of three divisions, one of which should include the present general functions of the General Supply Committee, to be known as the division of contracts, the second to be known as the division of purchases, and the third to include the present Division of Property Transfer of the committee and to be known as the division of stores. This would require the maintenance of a suitable warehouse adequately stocked with all articles in common use for distribution to the Government service. The ability to carry in stock various classes of supplies commonly required by the departments would permit the prompt filling of all requests and obviate the necessity for open-market purchases which, to a great extent, exists at the present time. Such a bureau would be able to buy supplies at opportune seasons and in quantities that undoubtedly would greatly reduce the cost.<sup>2</sup>

<sup>2</sup>The evils resulting from the absence of a central purchasing system in the national government were strikingly in evidence during the World War. Immediately upon our entrance into the war, the several services of the government, and particularly those of the War and Navy departments, entered the market for the procurement of equipment and supplies to meet their anticipated needs on a large scale. Their demands in many cases far exceeded the supply available. Each service sought to secure the largest part possible of the supply that was available. To do this they bid against each other and thus ran the price up far beyond what was justifiable. Moreover, under this system there was no assurance that the service most urgently needing the articles would get them, and many cases arose where a service could not get articles wanted, while another service had them in excess of their immediate needs. What took place is graphically described by Secretary of War Baker, in an address before the Cleveland Bar Association on March 29, 1921, under the title of "Some Legal Phases of the War." In order to drive home the conditions that existed at this time he said: "Let me illustrate further by taking the question of supplies. The War Department is normally organized to supply food, clothes, shelter and arms to some two or three hundred thousand men. They are supplied by a limited number of highly trained and competent men who practically go to the market with baskets on their arms and pick and choose out of the bountiful supplies of the country what they need for the army. The aggregate purchases are an insignificant part of the country's production; but when this vast mobilization came the War Department wanted more of everything than the country made or had. Instantly the War Department bought every pound of wool in the United States and bought every hide of leather. I went

It will be noted from the foregoing that the Secretary of the Treasury goes the extreme limit in recommending that the procurement of all supplies, whether of a general or special character, and whether intended for the services at Washington or the field establishments, be centralized in a single service. The present writer does not question the desirability of ultimately reaching such a system. It is questioned, however, whether it is advisable at once to provide for such an organization. The operations of the national government are on such a comprehensive scale, the character of supplies to be procured is so varied, and the administrative machinery so large and complex, that it is believed that it may be wiser to recognize that the problem has certain phases and to provide for these several phases one by one.

Thus, for example, the problem of supply for the services proper at Washington is quite different from that of the supply of the hundreds or thousands of field posts or stations scattered throughout the United States and its insular dependencies. It might be well, therefore, to provide first for a central service to act for all the services at Washington and only extend its operations to the field establishments after it has got into working order.

Again, much can be said in favour of restricting the operations of the central service at the outset to the civil services. Both the War and Navy departments, are organized in such a special way have such special methods of procedure, and make use of such distinct classes of supplies that there is a certain advantage in

down into the basement of the War Department one day and could not get through the corridors of that vast building because they were piled to the ceiling with typewriters. I asked, 'Whose are these?' and was told that they belonged to the adjutant general. I went to the adjutant general and asked him why he had bought so many typewriters, and how many he had bought, and he replied, 'I bought every available typewriter in the United States.' I then asked him why he bought them all, and he replied, 'If I had not bought them the surgeon general would have; or, if the surgeon general had not bought them, the Navy Department would have got them, or the Treasury Department.'

"That is a very apt picture of what took place. Dozens of agencies connected with the War and Navy and Treasury Departments, foreseeing the expansion of their work needed more than there was in the country of many articles, entered the markets, and immediately there grew up competition between them, and competition between the various bureaus in the departments themselves, fierce competition and monopolistic buying."

Conditions at that time were abnormal, but the foregoing shows how little the purchasing systems of the same department were of a character calling for proper relations between the several subdivisions of that department even in normal times. One great advantage of the centralization of the procurement function would be the setting up of machinery that would enable the government efficiently to handle this branch of administration in time of national danger or abnormal demands.

leaving to them complete autonomy. Provision should be made for the centralization of the supply function in each of these departments. When a similar centralization had been effected in the civil branch of the government, consideration could then be given to the matter of the consolidation of these three supply services or the establishment of proper working relations between them.

A similar question is presented in the case of those services which are of a revenue-producing character, such as the postal service, the Panama Canal, the Merchant Fleet Corporation, etc. Emphasis has been laid in our consideration of problems of organization upon the desirability of giving to each of these services the greatest possible administrative and financial autonomy. At the start, at least, efforts should be directed toward the giving to each of these services an efficient central supply service. After that is done, the matter of effecting a union with the central supply service for the other civil services or the establishment of proper working relations between them may be given consideration.

Finally, it may be well in organizing a central supply service, to recognize the distinction between the procurement of the ordinary equipment and supplies needed by all services and the special equipment and supplies needed by particular services. The writer has specially in mind such articles as building material and other engineering supplies, military and naval equipment, and scientific apparatus when needed on a large scale. All of these articles can be effectively procured by a central supply service. Their procurement, however, gives rise to special questions, and it is in respect to them that the greatest objection to a central system is manifested by operating services. It might be the part of wisdom not to cover their procurement under the central system until the efficiency of that system in respect to the procurement of other supplies had been demonstrated.

**Movement for Central Purchasing in the States and Cities.** In the states and cities the movement for the establishment of central purchasing systems has proceeded with great rapidity during the past few years. In 1924 it was reported that thirty-six or three-fourths of the states, 172 cities, and fifty-two counties had created central purchasing agencies. With a comparatively few exceptions, this action was taken since 1900 and for the most part since 1910. There has been only one case where the system once established has been abandoned. In some cases

<sup>3</sup>Russell Forbes, *Centralized Purchasing in Governments of United States and Canada*, American Academy of Political and Social Science, *Annals*, May, 1924.

the central purchasing agency has been an independent office. In most cases, however, it has been a bureau or subordinate agency in one of the administrative departments. In many instances the creation of these agencies has been a part of the general organization of the administrative system of the states.

PART IV  
FINANCE



## CHAPTER XXVIII

### GENERAL ANALYSIS OF THE PROBLEM OF FINANCIAL ADMINISTRATION

Of the several factors entering into the problem of efficient government, none is of greater importance than that of financial administration. A large part, probably more than half, of the time of the legislative branch is given over to a consideration of financial measures; of what revenues shall be raised, how they shall be collected, cared for, and disbursed, and what provision shall be made for meeting the expenditure needs of the government and the conditions to be observed in making such expenditures. On the administrative side, there is scarcely an act of government that does not have its financial aspect. The fact that an accurate record, susceptible of verification, must be kept of every penny of income due the government and collected and of every penny expended, means that practically every act of government must be reflected in the financial records. These records constitute at once the most important instrument of control over the fidelity and efficiency with which government officers perform their duties, the means of affording information regarding operations, and the basis for determining future needs of the government. In addition, special administrative services must be created and maintained for the collection of the revenues, the custody of funds, the settlement of claims, the disbursement of moneys, the keeping of the accounts, and the audit of such accounts in order to determine their accuracy and legality. It is hardly going too far to say that the government which has worked out and is employing a satisfactory system of financial administration has gone a long way toward putting the administration of its affairs upon an efficient basis; and conversely that the government which has not done so cannot possibly have that economical and effective management of its affairs to which its citizens are entitled.

**Political Aspects of the Problem of Financial Administration.** Like most governmental problems, that of financial administration must be viewed from two standpoints, political and technical. In its political aspects the problem devising and operating a proper system for the conduct of the financial affairs of a government at once raises that most fundamental of all political questions, the location of powers and the manner of their exercise. Stated



more concretely, it involves such important considerations as: the relative parts that shall be played by the legislative and executive branches in the formulation and adoption of financial policies; where shall rest the primary responsibility for the initiation of revenue and expenditure proposals; the weight that shall be given to such proposals, when formulated by the legislature in reaching final determination in respect to them, the extent to which the legislature shall delegate the exercise of its powers to subordinate agencies, and the means of control that shall be set up by the former to ensure faithful compliance on the part of the latter with all orders given to it. In its technical aspects the problem has to do with the scores of practical questions involved in determining the organization, form, and methods of procedure to be employed in putting policies into execution after they are adopted.

It is impossible for anyone interested in the subject to secure either a comprehensive idea of the problem of financial administration of a government, as a problem, or of the actual system of any particular government without giving consideration to both of these phases. Particularly is this so if one, as in the present case, is making his study from the standpoint of seeking to determine those principles and practices which should obtain in order to secure an efficient and economical administration of public affairs. No system of financial administration can give satisfactory results in practice unless it meets the requirements of the situation from both these standpoints. It is our intention, therefore, to consider the system of financial administration from both of these points of view. Since the former deals with fundamental principles, first consideration should be given to it.

As is well known, the struggle for popular government has, historically at least, centred largely around the question of the control of the purse. A full consideration of the problem of financial administration, viewed from the political standpoint, might thus seem to invite an examination of the whole field of constitutional government. We have, however, no intention of yielding to any such temptation. All that will here be attempted is to examine the question from the purely practical standpoint of the organs of government that must co-operate in the administration of financial affairs and the duties that must be performed by each.

**The Function of Planning.** Viewed from the political standpoint, the problem of financial administration comprehends four operations: planning, determining, executing, and controlling. Each of these will be considered in turn.

By planning is meant formulating a program to provide for the future financial needs of the government. As such a program, if it is to be of value, must take into account past operations and

present conditions as well as future needs, it should cover the work of securing and presenting in proper form complete and detailed information regarding financial transactions in the past and presented treasury conditions, as well as estimates of future revenue and expenditure needs. It should embrace, in a word, the assembling and presenting of the data required in order that the organ having the responsibility for making decisions in respect to what shall be done may perform that function in an intelligent manner. In a small enterprise under the direct management of its owner, the work of formulating and adopting plans constitutes but a single operation. Where the undertaking is on a large scale and where provision made for separate organs of direction and execution, such as obtain in the case of corporations and governments, it is necessary to distinguish between the two steps of formulating plans and of taking action upon them:

The first of these two functions clearly devolves upon the administrative branch, since it alone is in possession of the facts which must be taken into consideration if an intelligent decision is to be made. The necessity for formulating a definite financial and work program is far greater in a government than in any ordinary industrial or commercial undertaking, no matter how large and varied may be the scope of its operations. This arises from the differences between a government and a private enterprise in respect to the objects they have in view and the manner in which the funds for their attainment must be secured. A private enterprise has in view the production of a tangible product or the performance of a tangible service which has a commercial value through the realization upon which it expects to secure a return in excess of all expenditures which will be available for distribution to its owners and operators in the form of interest and profits. Generally speaking, the more extended its operations and the larger the volume of its business, the greater will be the sum thus available for distribution. Furthermore, the relation between its expenditures and its income is a direct one, in that the latter is the direct result of the former and normally varies with it. A government, on the other hand, has no such product in view, except in the case of certain special services, and even here the approved policy is that such services shall, as far as is feasible, be operated at cost. The greater part of its activities result in no return of a directly remunerative character. Only in exceptional cases is there any organic connection between expenditures and income. Finally, the field of its activities is not restricted and defined as is the case in most private undertakings for profit. There is almost no limit to its possible operations. Nor are there ascertainable limits to which it can go in raising funds for their conduct.

It is evident that, under these conditions, a government has a problem of determining what its activital and financial program shall be, quite unlike, and of far greater importance and complexity than, that confronting a private undertaking for profit. The two sides of its accounts will not tend automatically to balance or to show an excess of income over outgo. It has at once to consider the two independently and in conjunction with each other, independently in the sense that each item of income and expenditure must be considered on its own merits, and conjointly in that sooner or later the two must be brought into balance.

This problem a government may approach either from its income or its expenditure side. It may determine first how large a total revenue it desires to raise and then how this total shall be expended; or, it may determine first its expenditures and then proceed to take the action required to secure the funds necessary for meeting them. Whatever the method employed it should, and ultimately must, consider the two totals in their relations to each other.

There are few, if any, governments which do not recognize this obligation on the part of the administrative branch to make known what in its opinion are the financial needs of the government. In the national government it finds expression in the provision of the constitution that the President "shall from time to time give to Congress information of the state of the union and recommend to their consideration such measures as he shall judge necessary and expedient." There is, however, a vast difference between governments in respect to the provisions which they have made for the effective performance of this function. As will be later pointed out in the chapter dealing with the budget as the central instrument of financial administration, the only effective means by which the administration may formulate and make known its financial and work program is through the preparation of a document known as a budget, which will set forth by means of balanced statements the condition of the public treasury, revenues and expenditures in the past, the expenditures which, in the opinion of the administration, should be authorized for the future, and the means through which these expenditures should be financed. Though this is now generally recognized by students of politics and finance, it is only within the past few years that our governments, national, state and municipal, have made a beginning toward working out the problems involved in the use of such a document. Due to this, the problem of budgetary reform will receive especially careful attention in the chapters that follow.

**The Function of Determining.** By "determining" is meant the operation of considering the information furnished by the administration, of reaching decisions in respect to what shall be done to

meet the needs of the government as thus revealed and of embodying such decisions in formal authorizations and orders. If it is clear that the function of planning rests with the executive it is no less clear that that of determining rests with the legislative branch. In all popular governments, the legislature constitutes the policy-determining branch of the governments. It, and it alone has the function of determining, within constitutional limitations, what work shall be undertaken, how the government shall be organized for the performance of this work, what revenues shall be raised, how these revenues shall be collected, cared for and disbursed, what funds shall be granted for meeting the expenditures entailed by the work authorized, the conditions and limitations that shall govern in the expenditure of these funds, and the manner in which their expenditure shall be accounted for. Certainly this is true of our own government. It finds expression in the provisions of the national constitution that "all legislative powers herein granted shall be vested in a Congress of the United States," and that "no money shall be drawn from the treasury but in consequence of appropriation made by law."

In making this statement it is necessary to distinguish between the possession of authority and its exercise. The fact that the legislature, in the case of popular governments, has this determining function does not necessarily mean that it must itself exercise it to the last item of specification. In reaching its determinations it not only may, but should, be guided largely by the advice and recommendations that have been formulated by the executive. It also, in giving its orders for the future, should not attempt to determine action in detail, but should leave a large measure of discretion to the executive officers in carrying into effect the orders given to them. This delegation of the exercise of power may be made directly to the officers having the several activities in charge or be vested in a special organ of administrative discretion and control, such as the British Treasury, or such as our own government where large powers of administrative discretion are vested in the hands of the chief executive. The fact that powers of direction in respect to details are vested in the hands of executive officers should not, however, obscure the fact that such powers are purely delegated powers and that such officers are acting but as agents of the legislative branch.

Another phase of the function of determining the financial and work program is that of the organization and procedure used by the legislative branch in performing this part of its duties. Here again, our governments have only recently begun to adopt the means through which they may perform this duty in a satisfactory manner.

This matter of the extent to which the legislature, though possessing the power of determination should be guided by the executive in its exercise, and should delegate to the latter authority to make decisions with respect to details and the character of organization; and the rules of procedure that it should employ in determining the government's financial program, constitute two of the most important questions to be solved in the organization of any system of financial administration. The extent to which they are satisfactorily solved determines in no small degree the efficiency of the system that results. They will, therefore, receive full consideration in the chapter dealing with legislative action upon the budget.

**The Function of Execution.** By "execution" is meant the operation of carrying out the orders that have been issued. This operation covers all the varied work that has to be done in organizing services, selecting and directing their personnel, and generally performing the duties which are usually embraced under the designation of administration. That this function is one that pertains exclusively to the administrative branch, need hardly be mentioned. In performing this function, this branch acts as the agent of the legislative branch. It is its duty to carry out the orders given to it by the latter, and is responsible to the latter for the manner in which it does so. This responsibility is of two kinds: The fidelity with which it executes all orders and accounts for all moneys received or disbursed; and, the economy and efficiency displayed in performing the work to be done. With respect to the latter, a wide variation in practice is possible. This function has to do with financial administration proper and its consideration will consequently be made the subject of most of the chapters that follow.

**The Function of Supervision and Control.** By "supervising and controlling" is meant the operation of taking the action required in order that the policy-determining body may assure itself of faithful compliance with all orders given by it. A body having the responsibility for the reaching of decisions and the issuing of orders has performed only a part of its duties when it has issued its orders. It still has the obligation of assuring itself that those bodies to whom the execution of the orders is given perform their duties in a faithful and a satisfactory manner. This is necessary in order that such executing agents may be subject to proper control and that the body given the orders may have the information needed by it in passing upon proposals for future action. In no cases is this obligation more imperative than where the work to be done involves the handling of funds on a large scale.

The function of supervision and control is, thus, one belonging to the legislative branch. The only questions presented in respect to it have to do with the means that should be employed in discharging this obligation. These means consist of the requirement that all administrative officers shall keep an accurate and detailed record of their acts, and particularly those having to do with the receipt, custody, and disbursement of money, that they shall make known the character of such acts through suitable reports, and that the reports so rendered shall be subject to examination for the purpose of determining their accuracy, legality, and justification. Plain as is this duty of the legislative branch, it is one that is performed with probably the least efficiency of any branch of financial administration. It will accordingly receive especially careful consideration in the pages that follow.

**General Observations.** The foregoing analysis is of value not merely in making known the general nature of the elements involved in organizing a system of financial administration. It distinguishes the factors that must be taken into consideration in making a decision regarding the purely political questions involved in determining the branch of government to which the performance of each of these operations should be entrusted. Fortunately, an examination of this element of our problem does not require any detailed study of the vexed question of the distribution of governmental powers. This is due to the fact that there is now an almost complete unanimity of opinion on the part of students of government in respect to where the authority for the exercising of these several functions should be vested. This arises from the very nature of popular government and the necessities of the efficient conduct of any large undertaking. Though the principles involved may be said to be fairly well established, they are not always adhered to in practice. It is thus, one of our most important tasks to point out wherein American practice fails to conform to correct principles, or conforming to them in theory, fails to take the necessary action to make them effective in practice.

## CHAPTER XXIX

### THE BUDGET AS THE CENTRAL INSTRUMENT OF FINANCIAL ADMINISTRATION<sup>1</sup>

In the preceding chapter it has been pointed out that the problem of financial administration of a government, viewed in its largest aspects, embraces the four major operations of planning, determining, executing, and supervising and controlling. To state this in another way, the administration of the financial affairs of a government involves a continuous chain of operations, the several links of which are: (1) Estimates of revenue and expenditure needs; (2) revenue and expenditure acts; (3) accounts; (4) audit; and (5) reports. An estimate is first made of the expenditures that will be required for the due conduct of governmental affairs during a fixed period, this period being almost universally fixed at one year, together with a statement as to the manner in which it is proposed that the money to meet these expenditures shall be raised. On the basis of this estimate, revenue and appropriation acts are passed giving legal authority for taking the action determined upon. Following this, the operating service open up revenue and appropriation accounts corresponding to the items of the revenue and appropriation acts. The data recorded in these accounts are then subject to examination and scrutiny by the auditing and accounting department for the purpose of ensuring that they are accurately made that they correspond to the real facts and represent a full compliance with all provisions of law. The information furnished by these accounts is then summarized for the period to which they relate and is given publicity in the form of reports. Finally on the basis of the data thus secured, new estimates for the next year are made and the circuit is begun again.

**Nature and Functions of a Budget.** In this chain of operations the budget finds its place as the instrument through which these several operations are correlated, compared one with the other and brought under examination at one and the same time. The budget,

<sup>1</sup>In the preparation of this and subsequent chapters the writer has drawn largely upon his previous volumes: "The Problem of a National Budget," 1918; "The Movement for Budgetary Reform in the States," 1918; and "The National Budget System: with Suggestions for Its Improvement," 1927; Institute for Government Research, Studies in Administration. In some cases the language of these works has been closely followed, though, due to minor changes, such use has not in all cases been indicated by quotation marks.

thus, is something much more than a mere estimate of revenues and expenditures. It is, or should be, at once a report, an estimate, and a proposal. It is, or should be the document through which the chief executive, as the authority responsible for the actual conduct of governmental affairs, comes before the fund-raising and fund-granting authority and makes full report regarding the manner in which he and his subordinates have administered affairs during the last completed year; in which he exhibits the present condition of the public treasury; and on the basis of such information, sets forth his program of work for the year to come and the manner in which he proposes that such work shall be financed. The most important feature of a budget is that it shall be all comprehensive. It must bring together in one consolidated statement all the facts regarding the expenditures of the government, past and prospective, and the revenues and the financial condition of the treasury. These facts, moreover, must be presented by means of balanced statements so that the relations between past action and proposals for the future, between revenues and expenditures and between resources and obligations may be clearly seen.

Care has been taken fully to set forth the nature and function of the budget as an instrument of financial administration, since, great as is the amount of study that has for years been given to the question of the budget in foreign countries, and extensively as the question has been discussed in recent years in this country, only in exceptional cases has there been an appreciation of the true character of this instrument and the function that it should perform. To some of the numerous writers on the subject a budget is a mere statement of estimated revenues and expenditure. Others make it synonymous with a revenue and appropriation act. The former conception is most commonly found in the writings of American commentators, while the latter, springing naturally from the close relation between the estimates and the legislative acts under European parliamentary systems, is to be found most clearly in those of European writers, particularly the French. Thus, Leroy Beaulieu writes; "A budget is a statement of the estimated receipts and expenses during a fixed period; it is a comparative table giving the amounts of the receipts to be realized and of the expenses to be incurred; it is, furthermore, an authorization or a command given by the proper authorities to incur the expenses and to collect the revenues." Rene Stourm defines a budget to be "a document containing a preliminary approved plan of public revenues and expenditure," while G. Jeze describes a budget as "a forecast and an estimate of all the public receipts and expenses and, for certain expenses and receipts, an authorization to incur them and to collect them."



These definitions show little conception the writers had of the modern conception of a budget and the role that it should play in financial administration. Particularly are they defective in failing to appreciate that a budget should present facts regarding past operations and present conditions as well as proposals for the future and in failing to show the important distinction between a budget which represents the act of the administration, and revenue and appropriation acts which represent the act of the legislature. The latter distinction is one of such importance that special consideration is given to it in the chapter dealing with the form and content of a budget.

**Three Phases of a Budget System.** Another distinction that is of importance is that between a budget and a budget system. A budget is but a document; a budget system is one that makes use of a budget as the central instrument of financial administration. Viewing the problem from the latter standpoint, it will be found that a budget system embraces three distinct phases: (1) The formulation of the budget, which comprehends two features—the authority by whom the budget should be formulated and the character of its contents; (2) action upon the budget which takes the form of adopting its recommendations in whole or in part through the passage of revenue and appropriation act; and (3) execution of the budget, or to speak more accurately, the putting into effect of the provisions of the revenue and appropriation acts. This distinction between the three phases of a budget system is of importance, since each phase has its special problems, and it may well happen that a government has a budget system that is thoroughly satisfactory in respect to one phase and radically defective in respect to one or both of the other phases.

**Movement for the Adoption of a Budget System in the United States.** Although there is now a practical unanimity of opinion that a well-directed budget system is an essential of proper financial administration of any government body, it is only within the past twenty or twenty-five years that there has been appreciation of this fact and that actual steps have been taken by American governments for the adoption of such a system. To the bureau of Municipal Research in the City of New York, under the leadership of Dr. Frederick A. Cleveland, belongs the credit of inaugurating the movement for the adoption of his device. Immediately upon its organization, this bureau concentrated its attention upon the improvement of the system of financial administration of New York City and found in the creation of a proper budget system the chief means by which this improvement was to be brought about. Its report on "Making a Municipal Budget," published in 1907, had

great influence not only in New York City but in the country generally.

In 1910 was created the President's Commission on Economy and Efficiency, of which Dr. Cleveland was made chairman, and the present writer one of the other four members. This Commission, which functioned during the years 1910-1913, while urging many other changes in organization and procedure, at once reached the conclusion that much the most important improvement to be made in the organization and procedure of the government lay in a thorough recasting of the whole system for determining and making provision for its financial needs. It took the position, which was endorsed by the President, that no really worthwhile improvement in the conduct of the government could be accomplished until it adopted a budget system following in principle those that were employed by leading nations such as Great Britain and to a certain extent by certain of the states and cities of the United States. The Commission accordingly devoted a great deal of attention to this subject and prepared two reports in relation to it which were transmitted to Congress by the President and published as public documents. The first of these, entitled "The Need for a National Budget," gave an account of the existing unsatisfactory condition in respect to the matter of getting before Congress the financial needs of the government, pointed out how these conditions could only be remedied by the adoption of a properly devised budget system, and set forth the character of the budget system, provision for which, in its opinion, should be made. The second volume, entitled "Message of the President of the United States Submitting for the Consideration of the Congress a Budget with Supporting Memoranda and Reports," had for its purpose to present the estimates for 1914 in the form of a budget, to the end that Congress might see the character of information that would be furnished by a budget properly constructed.

While no immediate action followed the production of these reports, they had a great effect in bringing to the attention of the public the importance of budgetary reform not only in the case of the national government but in that of all government bodies.

The Institute for Government Research, which had been created in 1916, made the promotion of this reform one of its chief activities. As a necessary basis for its consideration of the problem, it made a careful study of the budgetary systems of the leading nations of Europe and of those states which had adopted a budget system. The results of these studies were published in part in four volumes in its series, *Studies in Administration*, under the titles of "The System of Financial Administration of Great Britain," "The Budget, by Rene Stourm: A Translation," The

Canadian Budgetary System," and "The Movement for Budgetary Reform in the States." The first of these volumes, which represented a study made on the spot by the Director of the Institute for Government Research in collaboration with two colleagues, was of special value as it gave the results of a personal investigation of the character and practical workings of what was recognized as the most highly developed and successful budget system then in existence. Following the appearance of these volumes, the Institute published a fifth volume prepared by its Director, entitled "The Problem of a National Budget," in which specific attention was given to the problem of the character of the budget system that would best meet the particular conditions presented by the national government and be in conformity with the American political system.

Following the publication of these volumes, the Institute promoted in every way possible action looking to the adoption of a budget system by the national government. Its efforts in this field were ably seconded by Mr. James W. Good, the Chairman of the House Committee on Appropriations and other members of that committee, and the reform was accomplished by the passage on June 10, 1921, of the "Budget and Accounting Act, 1921." This act not only gave to the national government an exceptionally efficient budget system, but it has exerted a great influence in promoting similar action on the part of the states.<sup>2</sup>

In the meantime, a considerable number of states, influenced by the action of the national government in establishing a Commission on Economy and Efficiency to consider the problems of improving methods of public administration, created similar agencies to consider their problem as it concerned their own administrative system. These commissions, almost without exception, placed in the forefront of their recommendations the adoption of a budget system. Largely as the result of the influence of these reports, state after state has taken the action recommended and has made definite provision for the adoption of a budgetary program. California and Wisconsin took certain steps in this direction in 1911, and Massachusetts followed suit in 1912. It was in 1913, however, that the movement fairly got under way. Since then scarcely a year has passed without additions being made to the list of states adopting the system until at the present time every state in the Union has enacted budgetary legislation of some sort. The systems established by these states vary greatly in excellence. Certain of

<sup>2</sup>For a full account of the history of the movement for this act and the manner in which the act has operated in practice see W. F. Willoughby. "The National Budget System: With Suggestion for Its Improvement." Studies in Administration, Institute for Government Research, 1927.

them are comparable to that of the national government. Many, however, are defective in failing to place responsibility for the preparation of the budget squarely in the hands of the governor or in failing to make proper provision for an agency through which the governor may exercise this function. From the standpoint of technique, that is, the method employed in formulating the budget and the character and method of presentation of the data, practically all of the system are susceptible of great improvement.<sup>3</sup> One of the most recent states to act is that of New York. During the last fifteen years that state made no less than seven different attempts to establish a budget system, each attempt being based upon a somewhat different method or theory. All were unsatisfactory in failing to vest the duty of preparing the budget exclusively in the hands of the governor. This important principle was, however, finally prescribed by an amendment to the constitution adopted in November, 1925. In pursuance of this constitutional amendment the legislature in 1926 passed an act<sup>4</sup> providing for one of the most effective budget systems possessed by any of the states. In many respects it is modelled upon the national budget act. In general it may be said that the states, by modifying their systems as first established are tending to establish systems corresponding as regards their fundamental features to that of the national government.

Rapid progress has also been made by the cities with respect to the adoption of a budget system. The charters of practically all of our larger cities provide for such a system. The movement for the general manager type of municipal government has contributed not a little to this result. Several states have made the adoption of a budget system obligatory by all of their cities and in some cases by the counties. The time can easily be seen when the use of budget will be practically universal on the part of all of our governing bodies.

<sup>3</sup>For the early history of the movement for budgetary reform in the states, see W. F. Willoughby, "The Movement for Budgetary Reform in the States," *Studies in Administration*, Institute for Government Research, 1918; and for a more recent survey A. E. Buck, "The Development of the Budget Idea in the United States," the American Academy of Political and Social Science, *Annals*, May, 1924.

<sup>4</sup>Laws of 1926 chapter 546

## CHAPTER XXX

### FORMULATION OF THE BUDGET

The problem of the formulation of the budget may be resolved into the following elements: the determination of the authority upon which shall rest responsibility for the preparation of this document, the provision that shall be made for means by which responsibility may be met, the procedure to be employed in performing the work, and the character as regards contents and form of the budget document.

**The Chief Executive as the Authority Responsible for the Preparation of the Budget.** In Part I, dealing with the problems of general administration, no principle was more insisted upon than that of definitely conferring upon the chief executive all the powers and duties of a general manager. Among these none is of greater importance than that of making full report of the manner in which affairs have been conducted in the past, of setting forth present conditions and making known what, from the administrative standpoint should be the program of operations in the future. It follows from this that responsibility for the formulation and submission of the budget, that is, the document through which this duty is performed, should rest squarely upon the chief executive. One may go further and say that unless this provision does exist the whole administrative system of a government must be deemed to be radically defective.

This position has the endorsement of practically all students of financial administration in the United States. This is evidenced in part by the provision on this subject incorporated in the model state constitution prepared by the committee on State Government of the National Municipal League, which reads:

Within one week after the organization of the legislature at each regular session, the governor shall submit to the legislature a budget setting forth a complete plan of proposed expenditures and anticipated income of all departments, offices and agencies of the state for the next ensuing fiscal year (or biennium).

**The President as the Authority for the Formulation of the Budget of the National Government.** Overwhelming as are the arguments in favour of this principle, it is one that has not as yet been universally accepted in the United States. As will be

later pointed out, responsibility for the preparation of the budget in the states has in not a few cases been vested in other agencies. At the time that the bill providing for a budget system for the national government was under consideration, opinion was sharply divided as to whether this responsibility should be entrusted to the President or to the Secretary of the Treasury. While the issue was pending the present writer prepared a memorandum having for its purpose to set forth the imperative need that the House contention should prevail, which was transmitted to the chairman of the House Committee and published in the Congressional Record for May 11, 1920. The importance of the issue here at stake, and the fact that the principle of vesting responsibility for the preparation of the budget directly in the hands of the chief executive has not yet been accepted by all the states, justifies, it is believed, the reproduction at some length of the arguments therein set forth in support of this principle. Omitting the introductory parts, the memorandum in part reads:

The primary purpose sought in seeking to have the National Government go upon a budgetary basis is that responsibility for the preparation of a definite, complete and consistent financial and work program should be placed squarely upon the President. Anything that would tend to obscure or lessen this responsibility should be avoided. It is believed, therefore, that if responsibility for the preparation of the budget is placed, in the first instance, upon the Secretary of the Treasury, this responsibility, in the eyes of the public at least, will rest rather with the Secretary of the Treasury, than with the President.

It is true that the President is responsible for the acts of the Secretary and that the budget as prepared will go forward as the President's budget. Nevertheless, the fact will remain that the budget in its details will represent the work and judgment of the Secretary of the Treasury and the President's responsibility will be the secondary one of accepting this budget, or at best of revising it in the general features only. This will be well known by the public, with the result that it will not hold the President to the same accountability for its proposals that it would if the preparation of the budget were made his direct, affirmative act.

A budget system should be viewed from its political as well as its purely administrative aspects. It has been repeatedly pointed out that the National Government will not have an economical and efficient administration until the voters of the country demand it. It is thus highly desirable that the matter of efficiency and economy be made a political

issue; that is one of the tests that will be applied by voters in exercising their electoral function. This can only be attained by making the President directly responsible for his financial and work program. As President Taft has expressed it, the preparation and submission of the budget should be the supreme act of his administration by which the voters are to judge regarding both his proposals and the manner of their fulfilment. The President is the only administrative officer who is elected by the people and is thus the only administrative officer who can be held directly responsible politically.

Again the advocates of a budget system seek by this change in our methods of financial administration to accentuate the responsibility of the President as the head of the administration, or to express it more directly as the general manager of the government as a business corporation. At the present time he has this responsibility only in a most general way. Only in slight degree do the people now hold him directly responsible for the details of administrative organization, procedure and activities. With the responsibility squarely placed upon him for formulating a budget, he will be compelled to make known in a formal manner his opinion as to what the Government should do and the character of organization that should be provided for its accomplishment. If the Bureau of the Budget is located in the Treasury Department this responsibility will be shared with, if it is not deemed to be primarily that of, the Secretary of the Treasury.

In connection with the foregoing it is important to appreciate that a budget is essentially a work program, as well as a financial proposal. Advocates of conferring authority in respect to the preparation of the budget upon the Secretary of the Treasury fail to give due weight to this fact. Their tendency is to look upon the work preparing a budget as little more than that of revising estimates of expenditure needs as formulated in the first instance by bureau and departmental heads. They have in mind merely the work of paring down estimates. It must be apparent that the really important thing is the determination of what work shall be undertaken and the scale on which it shall be prosecuted. Responsibility for making decisions of this kind can properly only be placed upon the President.

The preparation of a budget, moreover, means something more than passing upon the work proposals or programs of the heads of departments. It also means the deter-

mination of the particular service or department that shall be entrusted with the performance of an activity one decided as advisable. It is submitted that the only administrative officer who can properly do this is the President. He is the only administrative officer who is the recognized superior of all other administrative officers and whose decision will, as a matter of course, be unhesitatingly acquiesced in. It is impossible to believe that the heads of departments will be equally willing to accept the decisions of the Secretary of the Treasury, who since the organization of our Government, has had only co-ordinate rank with their own. President Taft, in discussing this point before the House Select Committee on the Budget, put this matter in this way. He said:

"Now I think it would be a mistake to place this under the Secretary of the Treasury for the reason that the Secretary of Treasury is running one of the Departments. The Secretary of the Treasury runs one of the departments of the Government, and he is like the Secretary of any other department. If you select the Secretary of the Treasury as the officer to consider the estimates of the other departments, you are going to get into difficulties. Members of the cabinet are not different from other people, and the pride of department, pride of bureau, and of all the things under them, serve to make them all human. Now, the President is the head of the government so far as the Executive is concerned, and what he says is more likely to go than what the Secretary of the Treasury says." . . .

A further objection to placing authority in respect to the preparation of the budget in the hands of the Secretary of the Treasury is that the Treasury Department is now one of the biggest spending departments of the government. Overhead or general direction and control, such as is contemplated by a budget system, should be exercised by an officer or organ which is not itself a spending department. The advocates of conferring budgetary power upon the Secretary of the Treasury have sought to meet this objection by proposing that the Treasury Department be stripped of all of its non-financial services. This, however, would only partially meet the needs of the situation. The Department would still have the administration of a large number of very important and expensive services—the Customs Service, the Internal Revenue Service, the mints, the supervision of national banks, etc. . . .

The only affirmative objections that are brought against locating responsibility for the preparation of the budget



directly upon the President and in giving to him his own service through which he may meet this responsibility are: that the director of such a bureau would either become a sort of super-cabinet, administrative officer,....and that the President would not have the time to discharge the additional duties thus placed upon him.

In respect to the first, it is of the utmost importance to appreciate that the proposal to create a Bureau of the Budget under the President does not carry with it any grant of power directly to that service. All grant of power is made directly to the President. The Bureau of the Budget will be merely the executing agent of the President. It will be the President who will make the decisions. He and he alone is in a position to assert his opinion and will over cabinet officers. The Bureau will thus have as its functions merely the raising of questions to be passed upon by the President, and the taking of the necessary steps to ensure that decisions once made are carried out....

In respect to the second, it is, of course, to be recognized that all the detailed work of securing and maintaining records and information regarding the organization or activities of the government, the justification for the demands made to engage in new activities, or to expand those already under way, the receipt and analysis of requests for funds as they originate in the several services and departments, and the final compilation of the budget, will be performed by the Bureau of the Budget, no matter where it is located. The President will thus be called upon merely to pass upon specific points that are raised by the Bureau as the result of its examination of the estimates as received by it, and its special study of administrative problems. It is believed that the President will, in normal times at least have abundant opportunity to do this work.

To sum up in a few words the positions taken by the advocates of placing direct responsibility for the preparation of the budget upon the President and of giving to him his own service, independent of any of the administrative or spending departments, through which to meet this responsibility, is that a budget after all is but a tool of administration, the means to an end. The real thing sought is to bring about a situation where the President will really and effectively discharge his duties as general manager of the business corporation. That this will mean added duties and responsibilities for the President is, of course, evident; but until these duties are discharged, not merely occasionally

but currently; it is futile to expect that efficiency and economy in the administration of public affairs that the stockholders of any large corporation demand as a matter of right of their executive officers. The system advocated thus means not merely that the President shall once a year perform the important act of submitting his financial and work program, but that he shall currently throughout the year discharge in a more direct manner the duties of a general manager as regards the control of all subordinate services. Only as he does this will he be in a position intelligently to formulate his budget when the time comes. At the present time the President has no agency through which he can keep in close touch with administrative affairs. The bureau of the budget which it is proposed to give to him will furnish such an agency, and it must be evident that no agency located within one of the spending departments could possibly perform these duties in an equally efficient way.

This contention, that the duty of preparing and submitting the budget should be vested in the President instead of in the Secretary of the Treasury prevailed. The Budget and Accounting Act 1921, as approved June 10, 1921, not only contained this provision, but throughout its provisions it also emphasized the responsibilities of the President as the administrative head of the government. It provided that the President shall submit the budget and also that "no estimate or request for an appropriation and no request for an increase in an item of any such estimate or request, and no recommendation as to how the revenue needs of the government should be met, shall be submitted to Congress or any committee thereof by any officer or employee of any department or establishment unless at the request of either House of Congress." The latter provision has further been strengthened by an executive order prohibiting any administrative officer, without the approval of the President, from recommending to Congress any action the result of which will give rise to the necessity of appropriations to put into effect. The combined effect of these provisions is to establish in the strongest possible way that all proposals for either the raising of revenue, the appropriation of money, or the enactment of legislation giving rise to the need for appropriation shall emanate from the President alone, and that having made his recommendations, it is improper for any administrative officer to seek to have these recommendations modified. It is doubtful, therefore, whether this responsibility of the chief executive for the formulation of a financial and work program is to be found more strongly expressed in the system of any other American government.

**Authority for the Formulation of the Budget in the States.** Though students of financial administrations are practically unanimous in favour of the system of having the budget formulated by the chief executive, this principle has only in part been accepted by the states in providing for a budget system. In some cases the preparation of the budget has been vested in an administrative board; in others in a joint legislative-administrative commission, composed partly of administrative officers and partly of members of the state Legislature and in still others in a legislative committee. Notwithstanding this, the trend at the present time is strongly in the direction of making the governor responsible for the preparation of the budget. New York represents the best example of this tendency. Its earliest action in the direction of the establishment of a budget system represents an unwillingness to accept the principle of vesting responsibility in the governor. After repeated efforts, it was finally accepted in the act of 1926, which gave to that state one of the best budget systems possessed by any of our commonwealths.

**Authority for the Formulation of the Budget in the Cities.** As in the states, uniformity does not exist in American cities in respect to the authority for the formulation of the budget. Where this authority is located, is dependent in large degree upon the general scheme of government possessed. In the centralized mayor or general manager form of government, responsibility for the formulation of the budget is generally vested in the chief executive, the mayor or general manager. In the commission form of government, this duty is performed by the governing commission. In those cities having the old council form of government with a relatively weak mayor, the budget is usually formulated by a committee of the council. In a number of our larger cities, including New York City, the formulation of the budget is entrusted to a special body known as a board of estimates or board of estimates and apportionment. On this board the comptroller, who is not an officer of the administrative branch but is independently elected by the voters, usually has as great a voice as the mayor. Regarding this situation, one of our best students of municipal administration has this to say:

It is now generally agreed among budget specialists and students of government that responsibility for the initial budget plan should rest upon the chief executive or administrative officer of the city government. If the existing organization of the city government is not such as to permit this officer to assume authority in budget making, then there is a strong reason for reorganization.<sup>1</sup>

<sup>1</sup>A E. Buck, *Municipal Finance*, p. 88 (1926).

One of the strongest arguments in favour of the city manager plan is that it permits of the organization of a proper budget system.

**Budget Agency.** It is evident that no chief executive, except of a petty political body, can, unaided, perform the heavy work involved in the formulation of a budget. No budget system is complete, therefore, that does not make provision for some agency that will handle the details of securing the necessary data from the operating services, subjecting these data to critical examination, and of compiling the results in proper form for presentation to the legislature. The need for such an agency, moreover, goes far beyond that of providing an instrumentality for doing this work. The vesting of responsibility for the formulation of the budget in the hands of the chief executive is but one aspect of the policy of conferring upon that officer the duties and responsibilities of a general manager. As general manager it is his duty to see that the provisions of the budget as enacted into law are faithfully executed, to supervise the operating services in the performance of their duties, and to take the action necessary to ensure that all parts of the administrative machinery are working effectively in co-operation. What is needed, as has been pointed out in our consideration of the problem of general administration and organization, is a bureau of general administration, to act as the agency through which the chief executive may perform all of his duties as directing or controlling head of the administration. The work of formulating the budget will be but a part, though an important part, of such general agency. This matter has been so fully discussed in the chapter on the need for a bureau of general administration that no further consideration of it in detail is here required.

Mention should, however, be made of one important point. In principle this agency should be independent of the operation departments, strictly speaking, and directly attached to the office of the chief executive. In practice this principle has been substantially acted upon by those governments having the best developed budget system. Though the service performing the duties of bureau of general administration in the states is usually designated as one of the executive departments, it has, in fact, a character quite distinct from the other departments which embrace operating services, strictly speaking, and to all effects and purposes it operates as a special agency for the performance, on behalf of the governor, of the duties pertaining to matters of general administration.

In the case of the national government, the Bureau of the Budget, which is the bureau of general administration for that government, though nominally located in the Treasury Department,

functions wholly as an independent agency directly attached to the office of the President. This arises from the fact that the Director and Assistant Director of that Bureau are appointed by the president and are subject exclusively to his direction. No authority in respect to the Bureau is conferred upon the Secretary of the Treasury.<sup>2</sup>

Another point to which reference may be made though already commented upon<sup>3</sup> is that it is desirable in creating a budget agency or bureau of general administration to take care that all grant of powers is made to the chief executive, the agency or bureau being merely the agency through which the chief executive exercises these powers. On this point the national budget act is superior to those of most if not all of the states that have provided for a budget system.

**Procedure in the Formation of the Budget.** It might seem at first sight that the work of formulating a budget presented few opportunities for variation in practice and raised no question of general importance. This, however, is not so. A comparison of methods employed by the national government and those states having an executively formulated budget will bring out the factors involved and their significance.

In the case of the national government, the formulation of the budget involves the following seven distinct operations: (1) Formulation by the President of his financial policy; (2) formulation by the Bureau of the Budget of estimates of income and expenditure; (3) submission by the spending services of preliminary estimates; (4) consideration of the preliminary estimates by the Bureau of the Budget; (5) submission by spending services of revised estimates; (6) consideration of the revised estimates by the Bureau of the Budget; and (7) preparation of the budget document.

<sup>2</sup>Commenting on this feature, Mr. Good, the author of the bill, said: "We believe it would have been better not to have put in the words 'in the Treasury Department,' but I agree with the gentleman from Wisconsin that it is an idle phrase. It does not mean anything, because the real meat in the section is the power granted by the section, and the only power conferred is the power we give to the President. The President is given power to appoint the director and assistant director, and he is not required even to get the confirmation of the Senate, because it was thought that for these offices that would be so peculiarly the President's staff, the President's force, the President, without being questioned with regard to his appointments, should appoint the men whom he believed he could trust to do his will in the preparation of the budget, so that when the budget, came before him it would be a budget that reflected his sentiment and determination with regard to economy and with regard to expenditure. Then, too, the budget is to be prepared for the President under such rules and regulations as the President shall subscribe. No power is granted to the Secretary of the Treasury." —*Cong. Record*, May 27, 1921.

<sup>3</sup> Chapter IV, 'The Bureau of General Administration.'

Before any other step is taken, the President decides upon what shall be his general policy in respect to such matters as the expansion or contraction of the government's activities, the retirement of the public debt, the increase or reduction of taxation, and such special matters as the increase or decrease of the military and naval establishments, the grant of bonuses to war veterans, the prosecution of public work, the voting of grants in aid to the states, and the like. He then receives from the Director of the Bureau of the Budget the estimate of income to be received under existing laws and estimated expenditures under existing authorizations, with the prospective balance in the form of a surplus or deficit at the end of the year, that has been compiled by him in conjunction with the Secretary of the Treasury and other Treasury officers. With these data before him, he reaches a decision as to the total of the appropriations that will be asked of Congress for the ensuing fiscal year, and the Director of the Budget is instructed to see that the total as asked for in the budget does not exceed this sum. The Director of the Budget thereupon calls upon the spending services to submit, on forms provided by the Bureau of the Budget, preliminary estimates of their appropriation needs, notification at the same time being given to them of the wishes of the President in respect to increase, if any, in the requests for appropriations that he is willing to sanction. The total of these preliminary estimates always exceeds the amount beyond which the President has decided not to go. It thus becomes the duty of the Bureau of the Budget to submit these estimates to scrutiny and to reduction so as to bring their total within the figure that has been determined upon. Each department and independent establishment is thereupon notified by the President of the total of the appropriations that will be requested for it and instructed to submit revised estimates that will not exceed this total. These revised estimates must be submitted on forms furnished by the Bureau of the Budget, which call for data showing in parallel columns the amounts estimated for the budget year, the estimated expenditures for the year in progress, and the actual amounts expended in the last completed year. Permission, however, is granted to the departments and establishments to submit with their revised estimates "supplemental estimates" having for their purpose to make known the amounts which they believe should be granted to them in addition to those included in the revised estimates. It is in these supplemental estimates that the departments and establishments have the best opportunity for urging upon the Bureau of the Budget their special claims for new or enlarged grants for particular purposes. Upon the receipt of these revised and supplemental estimates, the Bureau of the Budget, after subjecting them to study, submit them to what is known as the Board

of Estimates, which is composed of the Director, Assistant Director, the Executive Assistant, and the six Assistants to the Director. This Board then holds hearings at which the secretaries of the departments, the bureau chiefs and other administrative officers may appear and submit such arguments in favour of their requests for appropriations as they see fit. Following these hearings, a final decision as to the estimates is reached and the results are incorporated in the budget document.

The significant features of this procedure are: the careful determination in advance by the President of the basic features of his financial policy and the total beyond which he does not wish the aggregate of estimates to go; the notification of the spending services of his policy, with instructions that they be guided accordingly in formulating their requests for funds; the requirement of preliminary estimates; the tentative revision of those estimates so as to bring their total within that determined upon; the opportunity that is afforded to the departments themselves to revise their estimates so as to bring them within the totals that have been respectively allotted to them; and the full opportunity to appear through their representatives and show cause why those totals should not be further increased. It should be noted that the total that may not be exceeded in the revised estimates is a total for the department as a whole. It rests primarily with the head of the department to determine how this total shall be suballotted among the bureaus comprehended by the department. This suballotment may, however be modified by the Bureau of the Budget if it deems that circumstances warrant such action. The fundamental object is to leave to the services themselves large discretion in determining where cuts shall be made in estimates as originally framed, while ensuring that the totals determined upon shall not be exceeded, giving full opportunities to the services to make known their needs which they believe to be of a specially urgent and important character, and the reduction to a minimum of arbitrary reductions on the part of the Bureau of the Budget.

In the states, it is exceptional to find a procedure as elaborate and carefully worked out as that employed by the national government. This is due in no small degree to the smaller scale of the operations of these governments and the lack of an agency having the resources of the Bureau of the Budget. The states quite generally, however, have one feature that is lacking in the national system. This is formal hearings, held often by the governor himself, at which the public as well as administrative officers may appear and be heard. In the national government there is no participation on the part of the public in the formulation of the budget. One reason for the participation of the public in the case of the states, is the fact that appropriation for these have to do

largely with the support of institutions in which the public is directly interested and which are administered in part by boards with citizen representation upon them. For geographical reasons it is, of course, far more feasible for private persons to appear at hearings on the budget in the case of the states than that of the national government.

The final element of the formulation of the budget, the determination of its form and content, is of such importance that it is made the subject matter of a special heading chapter that follows



## CHAPTER XXXI

### THE FORM AND CONTENTS OF THE BUDGET

Emphasis has been placed in the preceding pages upon the fact that a budget, if it is fully to perform its function, is much more than a mere estimate of receipts and expenditures. It is, or should be, at once a report, an estimate, and a proposal. As a report it must set forth clearly existing financial conditions, financial operations in the past, and all other data needed in order to arrive at an intelligent financial and work program for the future. As an estimate it should reveal the income to be anticipated under existing provisions of law and expenditures in pursuance of existing authorizations. As a proposal it should make known the recommendations of the chief executive, acting in his capacity as general manager, as to what provision should be made for future expenditure needs and the manner in which those needs should be met. These three classes of data should, moreover, be so presented that they can be brought into comparison and the significance of the action proposed thus made apparent.

The manner in which these data, and particularly those having to do with the authorization of future expenditures, shall be presented is of fundamental importance, since the itemization employed determines, or should determine, in large part the heads under which appropriations will be made and, as a consequence, the character of the accounts that will have to be kept to control the expenditure of the money granted. It is not going too far, therefore, to say that the form of the budget determines in no small degree the whole character of the appropriation and accounting system of the government to which it relates,

**Division of the Budget into Parts: The Budget Message.** If these several purposes are to be served, it is desirable that the budget shall be divided into three distinct parts: (1) The budget message, (2) general financial statement, and (3) estimates of appropriations.

The most important feature of a budget is that it represents the document through which the chief executive comes before the fund-raising and fund-granting authority, the legislature, makes known how affairs have gone in the past year or biennium, and presents his recommendations for future action. The budget proper consists of statistical statements and figures showing appropriations

requested. Only in small degree are they self-explanatory. An essential feature of a budget should, therefore, be a letter of transmittal or message by the chief executive having for its purpose to make known the significance of the showings and recommendations. This message should be an exceedingly important document. In it the whole situation should be surveyed, and the necessity or desirability of all the action recommended clearly set forth. It, in a word, should correspond to the budget speeches of the British Chancellor of the Exchequer and the finance ministers or premiers of other countries having a budgetary system.

In this connection two features of a proper budgetary system which are often lost sight of, should be noted. The first is that a budget is essentially a work program as well as a financial program. The tendency has been far too prevalent to look upon the work involved in preparing a budget as little more than that of revising estimates of expenditure needs as formulated in the first instance by departmental and bureau heads. It must be apparent, however, that the really important thing is the determination of what work shall be undertaken, the scale on which it shall be prosecuted, and the particular service or department that shall be entrusted with its performance. The second is that one of the prime purposes of a budget system is to accentuate or emphasize the responsibility of the chief executive as the head of the administration, or, to express it more correctly, as the general manager of the government as a business corporation.

The budget message should thus be in effect the annual report of the chief executive or general manager. If it is given this character the chief executive will go before the legislature upon its convening on two occasions and in two capacities; once as chief executive proper, when he will make known his recommendations in respect to matters of general legislation, and once as head of the administration, when he will report on other operations of the government in the past and submit proposals for future operations. This is the practice in the national government. When Congress assembles in regular session in December the President submits his annual or political message. On the following day he submits his budget and the accompanying budget message. Special attention has been devoted to this matter, since the prevailing practice in the states has been to give to the governor's budget message more or less a perfunctory character, often little more than a mere letter of transmittal. This is unfortunate. The message should be one of the most important state papers of the governor and of a character that attracts wide publicity in the press.

**General Financial Statements.** It has been pointed out that the budget as conceived in the United States has the function, not

merely of setting forth in detail the provisions that should be made for meeting the financial needs of the government for the period to be financed, but also of presenting at the same time the financial data required in order to give intelligent consideration to these proposals. These two classes of data should be segregated and presented in separate parts. Part I should be devoted to the general statements having for their purpose to make known the financial operations in the past, present treasury conditions, and the results that will follow from putting into effect the recommendations that are made for meeting future financial needs. Part II should consist of the detailed statement of appropriations requested.

One of the advantages of this division of the budget into two parts is that it permits this document to serve the use of the two classes of persons who are interested in the financial affairs of the government: those whose interest is confined to the general aspects of the subject and those who are concerned with details as they affect particular services or activities. In Part I those whose interest is of a general character will find all the data that they desire. It is thus feasible to print Part I, together with the budget message, as a separate document and to give it wide publicity. Only a limited edition is required of Part II, which will constitute the greater part from the standpoint of bulk. By dividing the budget into two parts an important economy can be secured in the printing and distribution of the documents.

The character of the statements that should be presented in Part I cannot better be indicated than by reproducing that part of the Budget and Accounting Act, 1921, of the national government, which sets forth the statements that must be included in the budget. The act reads:

Sec. 201. The President shall transmit to Congress on the first day of each regular session, the Budget, which shall set forth in summary and in detail:

(a) Estimates of expenditures and appropriations necessary in his judgment for the support of the Government for the ensuing fiscal year; except that the estimates for such year for the Legislative Branch of the Government and the Supreme Court of the United States shall be transmitted to the President on or before October 15th of each year, and shall be included by him in the budget without revision:

(b) His estimates of the receipts of the Governments during the ensuing fiscal year, under (1) laws existing at the time the budget is transmitted and also (2) under the revenue proposals, if any, contained in the Budget;

(c) The expenditures and receipts of the Government during the last completed fiscal year;

(d) Estimates of the expenditures and receipts of the Government during the fiscal year in progress;

(e) The amount of annual, permanent, or other appropriations, including balances of appropriations for prior fiscal years, available for expenditure during the fiscal year in progress, as of November 1 of such year;

(f) Balanced statements of (1) the condition of the Treasury at the end of the last completed fiscal year, (2) the estimated condition of the Treasury at the end of the fiscal year in progress, and (3) the estimated condition of the Treasury at the end of the ensuing fiscal year if the financial proposals contained in the Budget are adopted;

(g) All essential facts regarding the bonded and other indebtedness of the Government; and

(h) Such other financial statements and data as in his opinion are necessary or desirable in order to make known in all practicable detail the financial condition of Government.

Certain observations should be made regarding the form in which these statements are cast. It is of the utmost importance for them to be of a character which is readily understood. Sight must never be lost of the fact that a budget is essentially a document having for its purpose to convey information to persons who for the most part are not familiar with accounting technology and technique. Furthermore, it should be borne in mind that it is often difficult even for persons familiar with accounting practice readily to determine the significance of accounting data if they are not familiar with the particular financial and accounting system of the organization to which such data relate. Due to these considerations it is doubtful whether the formal accounting statements made by the accounting department of a government should except under unusual conditions, be used in unmodified form as statements to be included in the budget. In a general way it may be said that budget statements should be of a statistical rather than of an accounting character. These statements, of course, should be in complete agreement with the accounting statements of the accounting department of the government. One of the special problems that has to be solved in determining the character and contents of a budget is that of reaching a decision as to what data regarding financial conditions and operations shall be given in the budget and what shall be reserved for representation in the formal financial report of the accounting department. If due regard is paid to the fact that the latter document should constitute one of the supporting documents to the budget and should be transmitted with it, little

difficulty ought to be encountered in solving this problem. The purely formal accounting statements, such as consolidated fund statements, balance sheets, operating statements, and the like, and the detail schedules supporting these statements, should be given in the general financial report. Their purpose is to render a formal accounting of operations of the year and of conditions at the end of the year, and to furnish the data to be made use of by the budget. The purpose of the budgetary statements should be that of exploiting the data thus presented, of presenting them in summary form so classified and compared with estimates for the year in progress and the year to be financed that the essential facts regarding past operations, present conditions, and future needs may be clearly seen as a basis for determining future policies. Budgetary statements should, therefore, be prepared with special reference to the purposes that they are intended to serve; they should be, as far as possible, free from unnecessary details and technical features tending to make their understanding difficult on the part of those not familiar with accounting practices or with the particular accounting system of the government to which they relate. In so far as it is feasible they should be self-explanatory, and, when this is not possible, they should be accompanied by explanatory notes or text to the end that the meaning of each term employed and the significance of each figure given may be clearly seen.

It might seem that in the foregoing, considerable space has been given to a discussion of the obvious. Our justification for doing this, however, lies in the fact that it is in precisely this feature that the budgets of many of our public bodies have been defective. The statements given have been of too formal an accounting character and have been so involved that it has been difficult for the ordinary legislator or student readily to grasp the significance of the showings made. They have thus failed to perform one of the essential purposes of a budget presentation. In the case of private undertakings there are a relatively small number of persons interested in the showing and most of these, due to their direct financial interest in the results, are fairly well informed regarding the character of the undertaking the sources from which revenue is obtained, and the purpose for which expenditures are made. For the standard form of accounting statements meets most, if not all, of their needs. In the case of a government, no such knowledge can be presumed on the part of the public to be served.

It is beyond the scope of the present work to attempt to reproduce the forms themselves which these statements should have. For such forms the reader is referred to a recent publication of the Institute for Government Research in which this matter is handled<sup>1</sup>. The

<sup>1</sup>Draft Manual of Reporting Financial Data of the States, 1926.

subject, moreover, is given consideration in a subsequent chapter dealing with the problem of public accounting and reporting.

**Estimates of Appropriations.** The determination of the manner in which estimates of appropriations shall be set forth raises a number of questions of importance. Among these the most important is probably that of the heads under which the grant of funds will be asked. As will be pointed out in our consideration of the problem of public accounting and reporting, information regarding the expenditures of the government should be had from the five standpoints of: (1) Funds, (2) organization units, (3) activities, (4) character, and (5) objects. Manifestly, it is impracticable to make appropriations from all five of these standpoints concurrently. It becomes necessary, therefore, that the government shall make a decision regarding which of the five shall be adopted as the primary, and which as the subordinate, factors in the formulation of the estimates in the budget and in the appropriation of funds on the basis of such estimates. Whichever scheme is adopted should be rigidly adhered to, for unless it is, no consistent or logical exposition of financial operations and needs is presented from any one point of view. The violation of this fundamental principle constitutes one of the most serious defects of budgetary practice in almost all governments. Their budgets show expenditures and estimates, partly in terms of organization units, partly in terms of activities, partly in terms of character, and partly in terms of objects of expenditures. It is exceedingly difficult, if not impossible, to summarize the data from any one viewpoint, and to appreciate the full purport of the figures in terms either of administration, responsibility or general policy.

**Organization Units as the Primary Basis of Classification of Estimates.** In reaching a decision regarding the principle of presentation that should be employed in formulating a budget there can scarcely be any question that the choice of the primary factor of classification should fall upon the unit of organization. The budget, in a word, should have as its primary purpose to show expenditures and estimates accordingly to the units by which made or for whose use the funds estimated for are intended. The primary showing will be that of the actual and estimated cost of maintaining and operating each unit and class of units of organization of the government.

A number of considerations unite to make this choice desirable. In the first place, it is important to emphasize in every possible way the factor of personal responsibility. In the actual organization and conduct of the affairs of government, individuals are in charge of

particular divisions or subdivisions of the government and not in charge of the performance of particular categories of work, except in so far as such particular categories are entrusted to particular organization units. As a result, individual responsibility consists in expending money and estimating the needs of such subdivisions of organizations. In the actual preparation of estimates, the individuals constituting the directing personnel make estimates of the needs of the services under their direction and forward them to the official next in authority above them. Here they are scrutinized, criticized, revised, and aggregated, and again forwarded to the person next in rank; this process being continued until the final aggregation in the Bureau of the Budget is effected. If a man's estimates are broken up and scattered in different parts of a budget it is bound to lead to confusion and make it difficult for the legislator to reach the proper man or proper administrative report for further information. Only by keeping accounts and making reports according to organization units is it possible to determine the efficiency with which the individual services are being run. Only as the heads of services know that their services are going to be considered on the basis of the work for which they are individually responsible will there exist a real incentive to efficiency and economy. This being the necessary basis for accounting and reporting, it is of prime importance that the budget and appropriation should be in conformity with it.

It is, moreover desirable that the budget and appropriation acts based upon it shall present in outline as complete a picture as possible of the organization of the government. They should reveal at a glance just what departments, bureaus, and subdivisions are being maintained, their relations to each other, and the personnel required by each. If a budget is properly prepared, it will constitute an invaluable document, revealing the structure of the government. Without such a knowledge it is impossible to give intelligent consideration to the national finances.

**Activities, Character, and Objects as Secondary Bases for Classification of Estimates.** The acceptance of the principle of making the organization unit the primary unit of of classification in the budget proper and in the appropriation acts means that the most general limitation upon the spending power of the operating services is on that basis. In comparatively few cases, however, will the legislature be willing to content itself with this limitation. The problem is thus presented of determining the manner in which the total for a service shall be further itemized. Such further itemization must take the form of specifying how much of the total for the service shall go either for particular subordinate units of organization of the service, particular activities to be

performed by it, for current operations or expenditures in the nature of capital outlay, or for particular objects, such as personal services, services other than personal, supplies, etc.

It is almost impossible to lay down any general rule that should govern in all cases in respect to the methods of itemization. In those services which are of a unifunctional character and require a comparatively stable form of organization, itemization by subordinate units is probably the preferable method. In those services which engage in a number of clearly distinguishable activities, such, for example, as the Bureau of the Census, which collects statistics of population, agriculture, manufacture and mining, state and municipal finances, vital statistics, etc., it may be desirable to designate how much of the total granted for the service shall be devoted to each activity. In all cases it is probably desirable that the amounts available for current operations and for acquisition of property shall be estimated for and set forth in the appropriation acts. In all cases, also, it will probably be desirable that, from the standpoint of objects of expenditure, itemization should go far enough to make known the total estimated and granted for personal service (salaries and wages) and the total for other objects. The question of the extent to which the attempt should be made to subdivide personal services according to particular positions and salaries is handled in a special section of Chapter III. It may be stated here, however, that the effort should be made to avoid such itemization as a binding limitation upon the spending services as far as possible and to depend upon general provisions of law and the information furnished by detailed reports for the exercise of due control over the services in this respect.

To summarize, it is desirable that the character of each service shall be carefully studied to determine from the standpoint both of administrative and of legislative control, the form that the limitations upon the power to expend, beyond that of the total for a service as a whole, shall take. After this is done, it is possible that a fair approach to standardization and uniformity of procedure may be secured.

**Itemization of Estimates.** Another question that is presented in formulating the estimates of appropriations is the extent to which the itemization shall be carried. In considering the question, it should be borne in mind that the budget is nothing but an information document. From this standpoint it is difficult to carry the itemization too far so long as such itemization gives information regarding the purpose and need of the sums asked. As will be pointed out in the chapter that follows, a clear distinction should be made between itemization in the budget and itemization in the appropriation acts. No harm results from specifying in great



detail in the budget the manner in which appropriations in the past have been expended and the estimated expenditure for the future, provided this itemization is not carried into the appropriation acts. In the national budget, for example, the items for personal service are supported in each case by detailed statements showing the number and compensation of all persons employed or about to be employed, while the appropriation is a lump for personnel.

**Comparison of Estimates with Past Expenditures and Appropriations.** In order that the significance of estimates for future appropriations may be seen, it is necessary that they shall be brought into comparison with expenditures in the past and estimated expenditures or appropriations for the year in progress. Both the general statements contained in Part I of the budget and the detailed estimates should provide for making the comparison through the use of three parallel columns for the presentation of these data. An additional column showing the increase or decrease in the estimates over estimated expenditures or appropriations also serves a useful purpose.

**References to Status and Explanatory Notes.** There are many cases also where it is desirable to explain items, as, for example, why the amount of the estimate varies greatly from the corresponding item of expenditure in the past, or why an item appears in one year and not in another. The reason may be that an activity or organization unit has been transferred from one bureau or department to another, that two services have been consolidated, that some special emergency has to be met, etc. To attempt to give these explanations in the tables themselves or as footnotes would greatly extend and complicate the presentation. Furthermore, the limitations of space would be such as to make it impossible in many cases to give the explanation in the fullness desirable. The preferable method, therefore, is to have all such explanations given separately as "notes," these notes to be numbered and referred to in the tables simply by their serial number. Although these notes would constitute a part of the budget, appearing as an appendix, it would be advantageous to have them printed as a separate pamphlet. The members of the committee on appropriations and others in examining the statements could thus readily refer to them as need arose. The adoption of this practice would facilitate the work of considering the estimates and greatly reduce the bulk of the budget proper.

**Annual Administrative Reports as Supporting Documents of the Budget.** Even with the use of a system of notes, it is impracticable fully to explain and justify the items that appear in a budget. The value of a budget as an information document

would be greatly increased if the annual administrative reports served as supporting documents to the budget. It is true that at the present time the legislature has available the administrative reports of the executive departments and other officers in charge of the several services of the governments. These reports, however, vary widely with respect to the character of their contents and the manner of presentation of their data. Often they contain little or nothing regarding the financial operations of the services to which they relate. Where financial data are given, they are more often than not classified and presented in a form dissimilar to that employed in the budget. Only in exceptional cases do they give anything in the nature of a systematic presentation of the reasons for the requests for the grant of funds that have been included in the budget. What is here suggested is that these reports should be prepared with special reference to their service as supporting documents to the budget. If this is done it will be a matter of ease for the legislature, as it reaches the estimates for a particular service, to consider them in connection with the report for that service. In such reports they will find not only the explanation of the items contained in the budget but also the details which it is impracticable to give in that document.

**The Use of Subsidiary Budgets.** An essential feature of a correct budget system is that the legislature shall be given at one time and through the use of one document known as the budget, a complete picture of the financial conditions, operations, and needs of the government. The practice of short circuiting, as it were, of certain classes of receipts or expenditures and of not having them figure in the budget, or of having two or more separate budgets, is a fatal defect. Notwithstanding this, examination of the character of the activities and financial operations of most governments, and particularly that of the United States, shows that there are certain services which are of a very special character and consequently should be handled in a special way in the budget. Reference is here made to those services which are of a revenue-producing character such as, in the case of the national government, the Postal Service, the Panama Canal, the Alaskan Railroad, the Merchant Fleet Corporation, formerly known as the Emergency Fleet Corporation, and the Inland Waterways Corporation. The advantages of treating these enterprises as subsidiary corporations and of giving to them administrative and financial autonomy have been in part pointed out in the consideration of problems of organization.

From the standpoint of financial administration, these services differ radically from the ordinary administrative services. Only to a negligible extent do the operations of the latter produce an

income. and the cost of their operations has, therefore, to be met from the general fund, the increments of which are derived for the most part from general taxation. In contrast to these services the revenue-producing services present a condition where there is a direct relationship between revenue and expenditures, and the general principle followed is that of having the latter as far as possible met out of the former. The result is that while the extension of the operations of an ordinary administrative service makes a corresponding increased charge on the general fund, in the case of a revenue-producing service expansion in the work produces a corresponding income.

It is evident that the general financial resources or condition of the government are only affected to the extent to which such a service, as the result of its operations, produces a surplus that can be turned over to the general fund or a deficit that has to be met from such fund. From the general budgetary standpoint all that is required, therefore, is that the general budget shall carry in the case of each revenue-producing enterprise this item showing the net result of its operations. This can be secured by having a special budget for each of the enterprises, the net result of which is tied into the general budget in the manner indicated. These budgets are supplementary budgets, since they are not independent of the general budget but are supporting documents to that budget.

There are a number of reasons why the operations of these enterprises should in each case be carefully segregated and given the independent consideration that is suggested.

In the first place these services have practically the same character as private enterprises conducted for gain. It is in the highest degree desirable that each should have its own accounting system, its own statements of assets and liabilities, its own operating statements, etc., to the end that precise information may be available of the extent to which such service is self-supporting, is producing a net profit or is run at a loss.

Secondly, any attempt to include the gross receipts and disbursements of these services in the general budget not only unduly swells both sides of the account and produces, from the standpoint of the taxpayer, a certain misconception regarding the cost of the government and the growth of government expenditures, but also necessitates the inclusion in the general budget of a great mass of details.)

Thirdly, each of these services represents a distinct problem requiring independent consideration. If each has its own budget containing its own balance sheet, operating statements, analysis of receipts and expenditures, etc., the exposition of financial condition, operations, and needs can be made much more elaborate, and the special considerations involved can also be given more effective consideration.

Finally, the appropriation policy of the legislature with respect to such services should be quite different from its policy with respect to the ordinary administrative service. With respect to the latter, the legislature not only fixes rigidly the total of the expenditures that may be made by each service, but also specifies in great or less detail the purposes or objects of such expenditure, the number of employees that may be employed in each class or at a given salary, etc. It is a question whether it is feasible or desirable that it should do this to the same extent in the case of revenue-producing enterprises. To attempt to prescribe the number and compensation of technical employees, such as ship-masters, locomotive engineers, etc., would unduly tie the hands of administrators and throw upon the legislature a burden of work that is beyond its competence.

All of the foregoing considerations can be met by setting up each of these revenue-producing services as a subsidiary corporation with its own boards of directors, its own personnel, and its distinct accounting, reporting, and budget system, the net results of the latter, however, to be tied into the general budget in the manner that has been suggested. By this device the conflicting considerations of an all-comprehensive budget and independent consideration of the financial operations and needs of these special services is secured.

It cannot be too strongly emphasized that the adoption of this device, instead of weakening, strengthens legislative control. Under it, the conduct of the financial affairs of these corporations may be subjected to appropriation control that is not attempted at the present time. The only difference from the appropriation standpoint will be that appropriations for the support of the several services will read as appropriations to be met out of the revolving fund of each corporation instead of from the general fund, and that the only appropriation required from the latter fund will be when the revenues of the service are not adequate to keep such revolving fund at a proper figure. In like manner, if it is desired, the comptroller or auditor can be given the same responsibility in respect to the audit and settlement of the accounts of those services that he has in respect to the accounts of the other services.<sup>2</sup>

<sup>2</sup> Special mention is made of this point, since at least one Secretary of the Treasury has taken the mistaken position that the creation of subsidiary corporations and the use of revolving funds removed the services to which they related from both the control of Congress and the Comptroller General. See Annual Report of the Secretary of the Treasury. Carter Glass, for 1919, p. 126 *et seq.* For a fuller statement of the desirability of the national government's making use of subsidiary corporations, see the paper by the present writer, "The National Government as a Holding Corporation: The Question of Subsidiary Budgets" *Political Science Quarterly*, December, 1917, and reproduced as a chapter in the author's work "The Problem of a National Budget"

**The Drafting of a Budget Bill.** In working out a proper system for determining and making provision for the financial needs of a government, no distinction is of greater importance than that between the budget and the appropriation act or acts having for their purpose to put budgetary recommendations into effect. The failure properly to observe this distinction has been responsible for the unsatisfactory results that have followed many attempts to introduce a budget system. One, thus, often hears the expression "passing or enacting the budget" as if a budget were a legislative bill both in character and form. This loose use of language is to be regretted from every standpoint. Not only does it tend to obscure the fact that the formulation of a budget and the enactment of revenue and appropriation acts are distinct operations, but it also ignores the essential differences in the character of the problems that the two present.

A budget is essentially an information document as we have repeatedly had occasion to point out. As such it is desirable that it or the supporting documents to it, should present as detailed an exposition of the revenues and expenditures of the government, past and prospective, as it is feasible to prepare. It should furnish information regarding the general character, purpose and amount of government expenditures, and also detailed data regarding the cost entailed in maintaining particular units of organization and in performing the particular activities itemized.

The function of an appropriation act is quite distinct from this. It has as its purpose to authorize the issue of money from the treasury to meet expenditures and to prescribe the purposes to which such money shall be devoted. It is evident that the accomplishment of this second purpose raises a question which is not present in the formulation of a budget; that namely, of the extent to which it is feasible and desirable rigidly to prescribe in advance how the money appropriated shall be expended. A moment's reflection must show that it would be both undesirable and impracticable to attempt to carry this specification of how money shall be expended to anything like the detail in which expenditures and estimates are set forth in the budget. To do so would result in tying the heads of administrative officers to such an extent that it would be difficult for them to perform their duties properly and efficiently. It is impossible to foresee all contingencies or to estimate in advance precise cost. It is imperative, therefore, that the money voted for the support of the government shall not be itemized to the extent that expenditures are reported and estimates made in the budget. For ex-

Institute for Government Research, *Studies in Administration* (1918). A more recent work on the same general subject is Harold Archer Van Dorn, *Government Owned Corporations* (1926).

ample, though expenditures and estimates may properly be given in detail by character and objects for each field station separately, in order to explain the total asked for, the appropriation itemization should not extend beyond the total for each station or, better still the total for all the stations of a like character combined. By so doing the legislature controls as regards the total funds to be drawn from the treasury for a given purpose, but leaves to the administration that discretion in respect to the application of the total to the several stations or to the particular objects of expenditure within a station that it must have if efficiency and economy in operation are to be secured.

In observing this distinction, two methods of procedure are open: the chief executive can himself prepare, as a separate document, a "budget bill" having for its purpose to put into execution his budget recommendations; or this work of bill drafting can be left to the legislature. The first method is the one very generally employed by the states having the best developed budget systems, and has the endorsement of most students of financial administration. The model state constitution prepared under the auspices of the National Municipal League, thus, contains the provision that:

At the time of submitting the budget to the legislature the governor shall introduce a general appropriation bill containing all the proposed expenditures set forth in the budget. At the same time he shall introduce in the legislature a bill or bills covering all recommendations in the budget for additional revenues or borrowings by which the proposed expenditures are to be met.

The second method is the one employed by the national government. Though this system has given reasonable satisfaction in practice, the method of the states must be deemed the preferable one at least for the states and cities.

## CHAPTER XXXII

### ACTION UPON THE BUDGET BY THE LEGISLATURE

A budget, we have seen, is the instrument through which the administration gets before the legislative branch all the information needed by that body in order intelligently to provide for future operations. The formulation of a budget is, thus, or should be, exclusively an administrative act. With the receipt of this document the legislature is confronted with the task of considering and taking action upon its proposals. In performing this task it has to meet problems of organization and procedure scarcely less important than those involved in the formulation of the budget.

**Need for a Single Committee on Appropriations.** A prime feature of a budget is that it presents the entire problem of financing the government at one time and in such a way that attention is concentrated on the total of expenditure needs and the relation of that total to the condition of the treasury and the total of prospective revenues. If this unity of the financial program is not to be destroyed, that is, if the legislature, in considering and taking action upon the budget, is to keep constantly in mind the bearing of its action upon the general financial situation of the government, it is imperative that it shall adopt a procedure that will ensure that this end be attained. There is but one means by which this can be accomplished; namely, by vesting entire jurisdiction over the framing of appropriation bill in a single committee.

In the national government this important step was taken by the House of Representatives through an amendment to its rules adopted on June 1, 1920. The importance of this action can only be appreciated by contrasting the new procedure thereby provided for with that which was in existence. At the time the amendment was made provision for expenditures was made through the passage of no less than thirteen general appropriation acts, emanating from and piloted through the House by no less than nine different committees. In addition, numerous appropriations were made by clauses contained in acts of general legislation. The result was that no pretence was made by the House of formulating any general expenditure program having reference to the total of the funds to be granted. Apart from the fact that, under this system or lack of system, no approach was made towards the definite location of responsibility for recommending the voting of funds and that the

total amount to be voted could not be determined until action upon the greater part of the recommendations had been taken, this system was directly provocative of extravagance and lack of balance or proportion in the appropriation of the government's money. This is excellently brought out by the remarks of Mr. Fess while arguing for the adoption of the change in the rules of the House to which reference has been made.

We are trying [he said] to get away from the practice of providing for a particular activity of the government with no relation at all to the other activities of the government. Under the present system we find not only duplication but that the committee reporting one of these bills is anxious, not to hold down estimates, but rather to get a large appropriation to meet the alleged needs of the particular branch of the government as estimated by the spokesman of the service. Another committee is equally anxious, indeed it may be said that every committee is ambitious for funds, and we see eight committees working, not together, but each working for itself with no relationship whatever to one another and with small regard to the sum total of all the committees. This proposed rule is intended to cure that, to make all of the appropriating agencies in one committee, so that every part of that committee will be making its appropriations with reference, not only to each part but especially to what the whole committee will ultimately make. This resolution is the last step to make the budget system a reality. It is supplemental to the budget bill and is necessary to make it workable.<sup>1</sup>

The situation in the Senate was similar to that in the House. Following the example of the latter, the Senate, on March 6, 1921, revised its rules of procedure so as to effect a like concentration of jurisdiction over appropriation matters in a single committee on appropriations. This requirement of a proper financial system is, therefore, now met by the national government.

In the states there has been no such dispersion of responsibility in respect of jurisdiction over appropriation bills. Though practice varies, the general system obtaining is that of having a single committee consider at least all general appropriation bills. This system has been strengthened wherever provision has been made for the adoption of a budget system. The general statement may, therefore, be made that, both as a matter of principle and practice, the single appropriation committee system has become a feature of American systems of financial administration.

<sup>1</sup>*Cong. Record*, June 1, 1920.



**Question of a Single Committee for Both Appropriation and Revenue Measures.** Many students of budgetary reform have gone beyond the advocacy of a single committee on appropriations to that of urging the vesting of jurisdiction over all financial measures, whether dealing with the raising or the expenditure of money, in a single committee to be known as committee on finance or committee on the budget. The basis for this proposal is evident. As has been pointed out, an essential feature, indeed, one of the main ends sought to be secured by a budget system, is the consideration of both sides of the public ledger at the same time so that the effect of proposed expenditures upon the prospective treasury balance may be clearly seen. It would seem to be only logical, therefore, that if such a consideration of proposed expenditures in relation to prospective revenues were desirable in the formulation of financial program, it would be still more so when these proposals are taken up for action.

Of the justice of this position from the standpoint of theory or principle there can be no question. There are, however, in the case of the national government at least, certain practical considerations which probably render it inadvisable, at the present stage of development of a new financial system, to seek to put this proposal into execution. The first and, in many respects, the most important of these is the great concentration of responsibility and power in the hands of a single committee that would result from such action. The body which has possession of the purse strings is in a position largely to control the whole field of government operations. The greatest obstacle to be overcome in securing a single committee on appropriations was the feeling in Congress that such action meant too great a concentration of power in the hands of a relatively small group of members. Had the proposal included the vesting in this committee of jurisdiction over revenue and other financial measures it would not have stood the slightest chance of adoption.

A second objection that is of a still more practical character is the great burden of work that would devolve upon that committee. The duty that the present committee on appropriations now has of considering the expenditure needs of a government of the size, complexity, and scope of the national government seriously taxes the capacity of its membership, notwithstanding the fact that the size of the committee has been increased to thirty-five members. It would be impracticable to throw upon it the work of the committee on ways and means without materially enlarging its membership, and this would tend to make the committee an unwieldy body,

Still a third objection to the union of the two committees into a single committee on finance or on the budget is the fact that, for

the most part, matters of appropriations are considered by both the committee and the House as non-political measures, while revenue bills usually have an intensely political character. The opinion is general that it is desirable that as far as possible political considerations shall be kept out of the work of determining the expenditure needs of the government. It would be unfortunate, therefore, if the committee had to concern itself with matters regarding which it would divide along party lines.

After all, the test is the manner in which a system works in practice. Under present conditions, the Committee on Appropriations has clearly before it the condition of the treasury and the total of prospective revenues and it is guided by this information in determining the expenditure program of the government. The chairman of the Committee on Appropriations also is in constant touch with the chairman of the Committee on Ways and Means, and there is little danger that the two will pursue such divergent policies as will seriously disturb the budgetary balance.

When one turns from the national to the state and local governments, the arguments in favour of a single committee having general jurisdiction over finance measures becomes much stronger. Particularly is this so in the case of municipalities, where the revenue system is more or less stabilized and gives rise to fewer questions of a political character. There would seem to be no objections to, and many advantages in, having a single committee that will consider both sides of the budget.

**Question of a Joint Committee on Appropriations of the Two Houses.** Another variation in the method of handling the appropriation side of the budget is that of having a single joint committee on appropriations of the two houses. That such a system has many advantages is evident. Under the existing system of separate committees the whole complex problem of considering the expenditure needs of the government is considered twice by two bodies acting independently. Apart from the additional work thereby entailed, this system provokes differences of opinion that often threaten to deadlock the two Houses. At best, they can only be adjusted through resort to conference committees, whose action is rarely satisfactory to either House. This question, however, is not one that can be settled on the basis of the technical advantages and disadvantages of the two systems. In it is involved the greater question of the relative advantages of the bicameral and unicameral legislature and the historical precedence of the lower house in respect to the origination of finance measures. Until the American people are willing to change their attitude in respect to these two features of their political system, the maintenance of the present system of separate committees is, therefore, to be expected.

**Need for a Systematic Scheme of Appropriation Act.** Though as has been pointed out, there is an essential difference between the budget and appropriation act, the two nevertheless have an intimate relation to each other. One of the great advantages of a budget system is that it permits a listing and classification of all items of expenditures and estimates in such a way that their purpose and character may be clearly seen. Manifestly, if the advantages of this systematic presentation of expenditure data are to be preserved, the appropriation acts, representing the action taken upon the budget, should follow the same scheme of classification that is employed in the budget, though for reasons given they should not enter into the same detail as in the latter document. Furthermore, unless this is done, it is impossible either to compare actual appropriations with estimates for the purpose of determining the extent to which budgetary proposals have been adopted by the legislature or to set up the heads under which accounts of expenditures will be made which will develop the data required for the preparation of the succeeding budget.

As set forth in the chapter dealing with the form and content of a budget, the principle on which the expenditure data should be classified in the budget is that of bringing together in one place all items having to do with the cost of maintaining and operating each unit of organization for the support of which provision is made. This is the principle on which the budget provided for by the new Budget and Accounting Act 1921, was prepared and submitted to the House. One of the greatest defects of the old appropriation system was that not the first attempt was made to bring together in one bill all of the items relating to a service, or even to an executive department. Under that system there were, excluding deficiency and special appropriation acts, twelve so-called general appropriation acts: (1) Legislative, executive, and judicial, (2) sundry civil (3) diplomatic and consular, (4) army, (5) fortifications (6) navy, (7) agriculture, (8) Indian, (9) post office, (10) pension, (11) District of Columbia, and (12) river and harbour. These acts in large part cut squarely across organization lines. Thus, for example, provision for the War Department was made: partly in the legislative, executive, and judicial, partly in the sundry civil, partly in the army, partly in the fortifications, and partly in the river and harbour acts. What was true of this department was more or less true of all departments. The result was that not only did Congress make no attempt to consider the problem of financing the government as a whole but it did not even consider at one time the total needs of any of the great divisions of the government. A more unsympathetic and unsatisfactory system of determining and making provision for the expenditure needs of the government, it would be difficult to devise.

To correct this condition of affairs, the Sixty-seventh Congress, at its second session, which was convened in December, 1921, and received the first budget under the new system, entirely recast its appropriation bill system so as to make it conform to the grand divisions of the budget, which in terms conformed to the organization of the government into branches, departments, and establishments and, within the departments, to their bureaus or other major subdivisions.

It is difficult to exaggerate the importance of this change. From the information standpoint, it means that members of Congress and the public can readily see the total of expenditures and estimates for any department or district service and the items entering into such total. From the standpoint of action upon the estimates, it means that a single subcommittee will consider the entire expenditure proposals of a department, that the result of its determination will be embodied in a single bill, and that the House and Senate will be enabled at one time to consider and take action upon the entire needs of a branch of the government department, or service. From the standpoint of accounting and reporting, it means that the main accounts of the government, which necessarily follow appropriation heads, will record expenditures according to organization units and that the report of expenditures will be along the same lines. One has only to contrast this system with the old system under which items relating to the same department or bureau were scattered through the book of estimates, where the expenditure needs of a department or bureau were considered by a number of distinct committees or subcommittees, where appropriations for departments or bureaus were carried in a number of different bills and considered by Congress at different times, to appreciate the significance of the change from almost every standpoint of financial administration. Until this step had been taken, it was impossible to get the full benefits of the new budget system.

**Question of a Single Appropriation Act.** One of the most valuable features of the budget is that it permits of a consideration at one time of the entire financial needs of the government. If this advantage is to be preserved it follows that it is desirable that the Committee on Appropriations should embody the results of its consideration of the budgetary proposals in a single appropriation bill.

In the case of the states, municipalities, and other minor political bodies, there is no reason why this desirable procedure should not be employed: and, in point of fact, this is what is done in most cases. When one turns to the national government, however, there are certain practical difficulties which make this procedure almost impossible. These are the magnitude and diversity of operations, to be financed and the lack of time in which to give them due consideration. As will be shortly shown, an important part of the

work of the committee on Appropriations of the House consists in the holding of elaborate hearing on the budget proposals, to which the heads of services and other officers are summoned for the purpose of obtaining from them explanations regarding the need for funds asked and the purposes to which it is intended to devote such funds. The holdings of these hearings necessarily consumes a considerable length of time. After these hearings have been held, the subcommittees have then to meet and decide upon their action. This action has then to be passed upon by the Committee on Appropriations as a whole. Following this, comes the consideration of the committee's proposals on the floor of the House, after which the bill goes to the Senate, where a similar chain of operations has to be gone through with. And finally, there is the necessity for the differences between the two Houses being adjusted by conference committees and accepted by the two Houses. A procedure that did not permit of the House entering upon a consideration of expenditure proposals until the Committee on Appropriations had performed all of its work, or of the Senate considering such proposals until the House had acted upon all parts of the expenditure proposals, would mean that action upon the budget would have to be deferred until towards the end of the session, when there is great pressure of the other business, and that nothing like the thorough consideration that is now given to appropriation matters could be had. Particularly would this be the case every other year, when the session of Congress, in accordance with constitutional limitations, must come to an end on March 4.

It follows from these conditions that the appropriation procedure must be such as to permit of the concurrent consideration of expenditure proposals by the committee on Appropriations, by the House, and by the Senate. This can only be secured through the use of a number of appropriation bills so that while the Committee on Appropriations is considering one bill, the House can be considering another, and the Senate still a third. Theoretically desirable as it is that the total expenditure program shall be considered at one time, practically, this cannot be done in the case of the national government. A system under which each branch of the government and each important department is taken up separately, such as is now in force, represents, therefore, the best that can be done.

In judging this system, it is important to note that its disadvantages, in comparison with that of a single appropriation bill, are not as great as might at first sight appear. In the first place, there Committee on appropriations, in which responsibility for action primarily rests, has before it the entire expenditure program, and can, thus, keep constantly in mind the bearing that any specific action recommended by it has upon the problem of financing the

government as a whole. This fact is of great importance, since a study of congressional action upon appropriation bills shows that such bills are adopted by the Congress substantially as reported by the committee. Secondly, both Houses of Congress have definite information regarding the expenditure program and its bearing upon the treasury balance and prospective revenues as set forth in the President's budget. Though considering this program piecemeal, they can nevertheless, always see whether the bills as reported by the Committee on Appropriations call for expenditures less than or in excess of, those provided for in the budget. In a word, the system of a number of appropriation bills still leaves it possible for Congress, in considering them, to be guided by the bearing that their proposal has upon the general financial condition or prospects of the government.

In the states and cities where the work of financing the government is relatively so much lighter, it is entirely feasible for use to be made of a single appropriation bill, and this is, in fact, the system almost universally obtaining.

**Power of Legislature to Modify Budgetary Proposals.** In the movement for budgetary reform in the United States, few questions have received greater attention than that of the extent to which the legislature shall have power to modify the revenue and expenditure proposals contained in the budget. On this matter the advocates of budgetary reform have been sharply divided. Those favouring the placing of limitations upon the power of the legislature have demanded what is designated as an "executive budget." This is an unfortunate term, since practically all persons desiring the establishment of a budget system agree that the formulation of the budget should be an executive act. What is really meant by this term is that the executive shall not only formulate the budget but also in large degree determine the action that shall be taken upon it. The restrictions that proponents of this system desire to have imposed upon the legislature are that the legislature may not appropriate money for a purpose that is not estimated for in the budget or increase the amount of an appropriation that is recommended. This advocated restriction on the appropriating power of the legislature represents that distrust of the legislative branch that has apparently been growing during recent years and has led to the numerous constitutional restrictions upon the powers of legislatures that they have found their way into the state constitutions adopted during the past fifty years. Secondly, it is intended to do away with the evils of special legislation as represented by the "pork barrel." The position is taken that, so long as the legislature has the power of initiating expenditure proposals, advantage of that power will be taken by individual members to secure, through the familiar log-rolling device, appropriations for the benefit of their particular

district which have no adequate justification from the general welfare standpoint. This danger, it is held, is not present when proposals for expenditures are made by the chief executive, since, first, he represents the entire state instead of only a part, and, second, his responsibility for recommendations is more apparent. Finally, the fact that Great Britain's budgetary system, a central feature of which is the inability of Parliament to modify executive proposals, has given such good results in practice served to furnish an argument for the adoption of a similar system in this country.

Though the force of these arguments must be recognized, they are not, in the opinion of the writer, sufficiently strong to warrant the adoption of this system generally in the United States. The first and most important objection to this system is that it does violence to one of the most fundamental principles of our political system. No feature of that system is more firmly established than that the legislative branch is the policy-determining, fund-raising, and fund-granting organ of the government. Until the American people are willing to adopt the principle of responsible government, under which primary responsibility for both formulating and securing the adoption of a government program rests in a cabinet composed of a premier or chief executive and the heads of the most important administrative departments, it is a mistake to adopt practices and procedure that lessen this responsibility of the legislature or divide it with the executive. Throughout this work the position has been taken that one of the leading defects in our governmental system lies in the failure to vest in the chief executive all of the powers and duties of an administrator-in-chief and the concomitant development of means by which his acts as such may be currently supervised and controlled. The position taken, in a word, is that the relationship that should exist between him and the legislature is that existing between general manager and the board of directors of a business corporation. It is our belief, therefore, that, though the responsibility for the framing of a budget should rest squarely upon the chief executive, that of taking action upon such budget should rest with equal definiteness upon the legislature.

It is believed furthermore, that the evils which have marked the legislative determination of appropriations in the past have been largely due, not so much to the possession of this power by the legislature as to these facts, that it has not had before it a definite and comprehensive appropriation program such as is furnished by an executively formulated budget; that its responsibility for departing from the recommendations of the administration with respect to its needs could not, therefore, be clearly brought home to it; that it had not adopted proper methods of procedure for the handling of appropriation measures; and that it had not set up adequate means,

through the establishment of a proper system of accounts, audit, and reports for performing its function of supervision and control. It is our belief that when suitable provision has been made for meeting these requirements, the abuses now undoubtedly existing in respect to the voting of public funds will be largely, if not wholly, eliminated.

There is another phase of this question which, if due consideration is given to it, should cause the proponents of this system to hesitate in their advocacy. This is the fact, too often lost sight of, that a budget is, not merely a financial, but also a work program. It represents the opinion of the chief executive as to what activities the government should enter upon and the scale on which they should be undertaken. Specifically, it presents his recommendations in respect to the work of the government in the field of public education, public health, public works, and all the other fields of government action. From the negative standpoint, it represents his judgment as to what should not be done, as made known by his failure to recommend appropriations. If the budgetary proposals of the chief executive are to have binding force, this means that a chief executive unfavourable to a particular line of work can either prevent its being undertaken or, if it is already undertaken, starve it by inadequate appropriations. It is more than questionable whether it is desirable to vest any such power in the hands of a single officer who is not politically responsible, as is the premier under a system of responsible or cabinet government.

A final argument that has been brought forward in support of the system of limiting the appropriation powers of the legislature is that this is the system possessed by Great Britain, which for years has been held up as a model of efficiency. In reply to this, two things should be pointed out. The first is that this system is a necessary consequence of, indeed, an essential feature of, the British political system, under which the ministry is primarily the policy-determining organ of government and means are provided by which it can be held responsible politically for its acts, while it does direct violence to the American political system, the most essential feature of which is that the determining function resides in the legislative branch. It does not, by any means follow, therefore, that because an institution works well in connection with a political system with which it is in accord, that it will give equally favourable results when made a part of another political system with which it is not in accord.

The second point is that the British system has not in fact given complete satisfaction in recent years. Prior to the World War, the fact that the expenditure program of the ministry was subject to no effective criticism and change was made the subject of increasing criticism. While the United States was looking to Great Britain



for information to aid in solving its budgetary problem Great Britain was lamenting the fact that its ministerial expenditure proposals were not subject to that searching scrutiny and curtailment that the administrative proposals received in the United States at the hands of the House Committee on Appropriations and the two Houses themselves. This is evidenced by the creation in 1912 of a Select Committee on Estimates. The experiences of the war greatly strengthened this feeling. In 1917 provision was made for the appointment of a Select Committee on National Expenditures to consider the whole situation. In a report submitted by this committee in 1918, the position was unequivocally taken that the system under which the budget proposals of the ministry were subject to no change not acceptable to the ministry was thoroughly unsatisfactory. In the report the committee said:<sup>2</sup>

The replies (to questions of inquiry sent out) show, with few exceptions a consensus of opinion that the present system of Parliamentary control over expenditure is inadequate. In that view we concur. Indeed our terms of reference themselves, inviting proposals to render control more effective, indicate that the House is not satisfied with the existing procedure. . . .

The presentation of estimates to Parliament serves no doubt, a useful purpose. It secures publicity for the sums which they include and fixes responsibility for their expenditure. It has an indirect influence also on Ministers and Departments, since there is always the possibility that any item may be selected and challenged. The debates in the Committee of Supply are indispensable for the discussion of policy and administration. But so far as the direct effective control of proposals for expenditure is concerned, it would be true to say that if the estimates were never presented, and the Committee of Supply never set up there would be no noticeable difference. Indeed a large part of the estimates are formally passed, year after year under the closure at the end of each session without even the appearance of discussion; while every estimate, whether closed or not, emerges from the Parliamentary process in precisely the same shape as it entered it, yet it cannot be contended that there is never an occasion in any year, or under any head, on which proposals for expenditure could with advantage be reviewed and amended.

The estimates undergo in normal times a close examination by the Treasury before they are presented. But the Treasury is itself a part of the Executive. When any Departmental Minister has secured the personal assent of the

<sup>2</sup>Reports from the Select Committee on National Expenditure, 115.

Chancellor of the Exchequer to any proposal which he desires to insert, or to retain in his estimates, the Treasury is necessarily silent. Treasury control, invaluable as it is up to a point, is not a substitute for Parliamentary control.

To meet this situation the committee recommended that provision be made for a Standing Committee on Estimates, whose duty it would be to examine budgetary proposals for expenditures in the same way as is done by the Committee on Appropriations of the American House of Representatives, that this committee have authority to recommend the reduction or elimination of items not involving matters of policy, and that the House of Commons in Committee on Supply have power to reduce estimates of appropriations even against the opposition of the ministry without such action being deemed to be a vote of lack of confidence except in those cases where the ministry declared that it would place such an interpretation on the vote.

As has been pointed out, advocates of the British system base their advocacy on two assumptions: one, that the executive can more intelligently determine expenditure needs; and, the other, that legislative bodies are likely to exhibit extravagance in the voting of public money. The validity of both of these assumptions may be challenged so far as the national government operating under its present budget system is concerned. It may be, and probably is, true that an executive agency, such as the Bureau of the Budget, can better determine in the first instance the expenditure needs of the government than can a legislative agency, such as a committee on appropriations. If the choice lay between the use of one of the agencies alone, preference should probably be made of the executive agency. No such choice, however, has to be made in the national government. Here, use is made of both agencies, and in practice both agencies have shown a commendable desire to keep down appropriations. Under the English system, requests for funds as they emanate from the spending services are critically examined by only a single agency, the Treasury. Under the United States system they are subject to two similar scrutinies, that by the Bureau of the Budget and that by the House Committee on Appropriations.

In making this comparison of the British and American systems it is a matter of no little interest to note that the budget system of the national government, which rests upon the principle of leaving to the legislature full power to modify budgetary proposals, has been fully as effective as the British system in keeping down appropriations. Without exception, the total of appropriations, since the new system was established six years ago, has been less than the total asked for the President. Furthermore, such changes as have been made in the budgetary proposals have related to a

comparatively few items, the great bulk of the proposals being accepted substantially as formulated.

In point of fact, three systems for determining expenditure grants are available: one where the executive is the determining body, one where the legislature is the determining body, and one where the determination is made by the two bodies acting together. England has the first of these systems; in the United States the second system generally prevailed prior to the recent movement for budgetary reform; the third is the system under which the budget is handled by the national government. The English system is probably superior to the system that existed in the United States in the past. It may well be that the third system now possessed by the national government is superior to either of the other two; or, if this is not so, that it at least represents the best solution of the problem that is possible under our political system of separation of powers.<sup>3</sup>

In the foregoing we have sought to examine the proposal for the restriction of the appropriation power of the legislature on its technical merits, the conclusion reached being, that each proposal was not one that could be grafted upon the American political system until the American people were willing to go much further and accept the general principle of the responsible government. A special objection to this system in the case of the national government lies in the fact that it is not unusual for the chief executive and one or both of the House of Congress to be of different political affiliations. Under an executive budget system a situation would often arise where a President of one political affiliation could make his will prevail over a Congress of the opposition political complexion, notwithstanding the fact that such Congress may have received its mandate from the people at a date later than that of the President. It is impossible to conceive of the American people acquiescing in such a complete negation of the fundamental principle of popular government. Were there no other objection to the proposal for an executive budget system, this feature in itself would remove it from the domain of practical politics.

<sup>3</sup> For an account of the British Budget System, see W. F. Willoughby, W. W. Willoughby, and S. M. Lindsay, *The System of Financial Administration of Great Britain*, Institute for Government Research, Studies in Administration (1917); Col. A. S. V. Durell, *The Principles and Practice of the System of Control over Parliamentary Grants* (London, 1917); Henry Higgs, *National Economy: An Outline of Public Administration* (London, 1917); E. H. Davenport, *Parliament and the Taxpayer* (London, 1918); Henry Higgs, *Financial Reform* (London, 1924); J. W. Hills, *The Finance of Government* (London 1925); and the reports of the Select Committee on Public Expenditures (London 1917-18).

A further fact to which great weight should be attached is that the adoption of this system can, except possibly in a few cases, be secured only through the process of constitutional amendment. Due to the difficulties in the securing this action, it would seem to be the part of wisdom that present effort should be concentrated upon securing the adoption of a system calling for an executively formulated budget, the improvement of the procedure of the legislature in handling this budget after it is secured, and the perfection or the means for controlling actual expenditures through the installation of proper accounting, auditing, and reporting methods. After these ends have been attained it will be in order to consider the extent to which executive proposals shall have binding force through limitations placed upon the legislature to modify them,

Though no state has adopted the British system in its entirety, some have gone part way in this direction and have imposed rigid restrictions upon the power of the legislature to originate appropriation bills or to modify those originating with the executive. In the adoption of this policy the lead was taken by Maryland, which in 1916 made provision for a budget system by constitutional amendment. As this system represents one of the important types of budget systems in the United States, it is desirable to reproduce the provisions of the amendment in so far as it relates to the procedure prescribed in the handling of appropriation measures. After vesting in the Governor the duty of formulating the budget, the amendment continues:

The Governor shall deliver to the presiding officer of each house the budget [i. e., one for each year of the biennium] and a bill for all the proposed appropriations of the budgets clearly itemized and classified; and the presiding officer of each house shall promptly cause said bill to be introduced therein, and such bill shall be known as the "Budget Bill...."

The General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly and by increasing the items therein relating to the judiciary, but except as hereinbefore specified may not alter the said bill except to strike out or reduce the items therein; provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill when and as passed shall be a law immediately without further action by the Governor.

The Governor and such representatives of the executive departments, boards, officers and commissions of the state expending or applying for state's moneys, as have been designated by the Governor for this purpose, shall

have the right, and when requested by either House of the Legislature, it "shall be their duty to appear and be heard with respect to any budget bill during the consideration thereof, and to answer inquiries relative thereto."

Neither House shall consider other appropriations until the Budget Bill has been finally acted upon by both houses, and no such other appropriation shall be valid except in accordance with the provisions following: (1) every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a Supplementary Appropriation Bill; (2) each Supplementary Appropriation Bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be laid and collected as shall be directed in said Bill; (3) no Supplementary Appropriation Bill shall become a law unless it be passed in each house by a vote of a majority of the whole number of the members elected: and the yeas and nays recorded on its final passage; (4) each Supplementary Appropriation Bill shall be presented to the Governor of the State as provided in Section 17 of Article II of the constitution and thereafter all provisions of said Section shall apply.

The essential features of this system are that proposals for the voting of funds for the general support of the government shall originate with the executive, that such proposals, in so far as they have to do with the executive or administrative branch, may be reduced but not increased; that the Governor or his representative may appear before the legislature in support of the executive proposals; that the consideration of no bill providing for an appropriation other than those contained in the budget shall be in order until the budget bill has been finally acted upon by both houses; and that thereafter no bill providing for additional appropriation may be enacted that does not provide for the raising of the money so voted by the imposition of a special tax for that purpose.

This system has been copied by four or five other states. It is significant, however, that several of these states have subsequently abandoned it in so far as it provides for restrictions upon the power of the legislature to add or increase budget proposals for the administrative branch. Of this system, Mr. A. E. Buck, one of the leading students of budgetary reform in this country, has the following to say:<sup>4</sup>

Only the Maryland budget amendment and those amendments or laws which have been copied from it have placed

<sup>4</sup>A. Model State Constitution. Prepared by the Committee on State Government of the National Municipal League.

upon the power of the legislature to increase the governor's budget proposals. Of the five states which adopted the Maryland provision; New Mexico and Nevada have eliminated it from their budget laws. Utah eliminated this provision at the 1923 session of the legislature. Indiana's proposed budget amendment (copied from Maryland) failed to pass the 1921 legislature largely on account of this provision. West Virginia has the provision embodied in a constitutional amendment. The experience of both Maryland and West Virginia on this point has not been very satisfactory. In fact an attempt was made to amend the budget section at the 1923 session of the West Virginia legislature.

This experience of Maryland and the states that sought to follow its example would seem to indicate that the system of an executively determined as well as executively formulated budget on the British model is not likely to find favour in the United States and that the principle underlying the national budget system is the one that will generally prevail.

Up to the present time we have been considering only the question of the power of legislature acting as a whole to modify executive estimates of expenditure needs. Quite a different question is that of the power of individual members of the legislature to influence appropriations, either by introducing measures calling for an appropriation of public funds or proposing amendments to appropriation bills as reported by the committee on appropriations. One can well believe that, under our existing political system, no limitation should be placed upon the legislature in acting upon executive expenditure proposals and at the same time hold that more or less severe limitations in respect to this matter should be placed upon the action of members acting individually. This is a matter that is well within the legal competence of our legislative bodies, to be handled as they see fit in the drafting of their rules of procedure. The limitation on the power of individual members in respect to the initiating or securing of appropriations can be secured in various ways; by providing that no individual and no committee other than the committee on appropriations may introduce a measure providing for an appropriation of public funds; by permitting such action but providing that all such measures shall be referred to the committee on appropriations and be considered by it in framing its general appropriation bills; by providing that no committee other than the committee on appropriations shall report out a bill carrying an appropriation; and, finally, by imposing restrictions upon the right of individual members to propose amendments to appropriations calling for the insertion of any new item or the increase of any item already in the bill, or in doing away with that right altogether

It would take us too deeply into the matter of legislative procedure to consider the merits of these several methods. All that it is pertinent to say is that none of the arguments against restricting the power of legislatures as a whole in respect to the appropriation of funds applies to limitations of this character. On the contrary, just as it is desirable to concentrate the function of formulating an expenditure program in the hands of a single agency, the chief executive, so much can be said in favour of securing a like centralization of responsibility within the legislature for acting upon such program. As regards the national government, important restrictions have been placed on the powers of individual members and other committees in respect to the amendment of appropriation bills and the reporting out of measures carrying an appropriation. These restrictions will be considered in the next section dealing with the jurisdiction of the committee on appropriations, its powers and duties.

**Distinction Between Acts of Appropriation and General Legislation.** Among the practical problems of legislative procedure upon budgetary proposals is that of determining the jurisdiction of the committee on appropriations. Fundamentally, the problem that is presented is that of distinguishing clearly between the two operations of (1) authorizing the administrative service to engage in activities, determining their powers and organization and methods of procedure in so doing; and (2) that of voting the money required in order to meet the expenditure thereby entailed; and of determining the extent to which the committee on appropriations shall have power in respect to both operations, or only the latter.

To make this point clear, there is evidently a wide difference between the enactment of a law providing for the establishment of a service of the government, defining its duties and powers, and setting forth in more or less detail the character of its organization and personnel, and the voting of the money required by such service in order that it may perform the functions for which it has been created. In like manner there is a clear distinction between the enactment of a law authorizing or providing for the construction of a public building or other public work or the engaging in an activity and the grant of funds with which to meet the expenditure thereby entailed.

This distinction raises in an acute form the important question as to whether, in operating a budget system, these two operations shall be kept rigidly distinct and provided for by separate acts of legislation, or, whether both shall be provided for by the legislative proposals emanating from the committee on appropriations having for their purpose to put into effect the budgetary proposals

of the chief executive as modified by the committee. In the national government this distinction runs throughout the rules of Congress. It delimits the jurisdiction and powers of the committees on general legislation on the one hand and the Committee on Appropriations on the other, and determines the nature of the amendments that may be proposed to the two classes of measures while they are under consideration.

With one exception, which will be presently noted, the rules rigidly prescribe that all proposals of general legislation shall be referred to the proper committees on general legislation, and that all proposals calling for the appropriation of money from the treasury shall be referred to the committee on appropriations; that the committee on general legislation shall not have authority to include in bills reported by them clauses providing for the appropriation of money; and that the Committee on Appropriations shall not have authority to include in bills reported by it clauses providing for general legislation, with the single exception that such clauses may be inserted if they have for their purpose to reduce expenditures: and that no amendment calling for an appropriation is in order to a bill of general legislation, and no amendment calling for general legislation is in order to an appropriation bill while those bills are considered by the House.

The significance of these provisions from the standpoint of providing for the needs of the government is that such provisions involve the taking of two distinct steps: first, the passage of an act of general legislation authorizing or directing the government to do a certain act or prescribing the powers, duties, organization, and procedure of a service; and second, the passage of another act appropriating the money by which this direction or authorization may be put into effect. The two acts are not only distinct, but the bills providing for them are handled by separate committees. To illustrate, all bills authorizing or directing the erection of public buildings must under the rules of the House, be referred to the Committee on Public Buildings; all bills for the improvement of rivers and harbours, to the Committee on Rivers and Harbours; all bills providing for governmental activities in relation to agriculture, to the Committee on Agriculture; and so in reference to all other proposals calling for work of the government, each goes to its appropriate committee. These committees consider the desirability of the government undertaking the work called for and report out bills embodying their conclusions. These bills may not contain clauses appropriating money for putting their conclusions into effect. They do, however, contain provisions, "authorizing" appropriations and fixing the limits of the appropriations so authorized. Not until acts of this kind have been passed does the Committee on Appropriations have authority to include in the appropriation bills re-



ported by them, items for engaging in work not previously authorized. It will be seen that one committee passes upon the desirability of a new project and fixes the maximum sum that may be voted for its execution, and another committee, the Committee on Appropriations, passes upon the desirability of voting funds for its execution.

The reasons leading Congress to adopt this system were these. A large part of the work of Congress consists in acting as a board of directors for the government corporation; that is, determining administrative policies, the activities that the government shall engage in, the organization and procedure of the services for performing such activities, the funds that shall be available for meeting the expenditures thereby entailed, etc. The policy of granting to committees on general legislation the power to report out bills covering matters both of general legislation and appropriations, had been tried and proved a failure. Under it, responsibility for the expenditure program was diffused and rested largely in the hands of committees seeking grants from the treasury rather than the protection of the treasury. To have vested complete control over the authorizing of expenditures as well as the grant of fund with which to put these authorizations into effect in the hands of a single committee, the Committee on Appropriations, would have meant entrusting to this one committee practically the entire jurisdiction in respect to governmental policies and operations. The feeling was that no one committee could properly discharge the duties that would thereby be thrown upon it. Apart from the great burden of work that has to be done, its variety is such that it can only be efficiently performed by bodies which are in a position to specialize upon and become experts in particular lines of work. The committees on general legislation represented such specialized agencies, the Committee on Agriculture in respect to activities falling in its field, the Committee on Rivers and Harbours in respect to the need for river and harbour improvements, etc. Apart from these considerations was the fact that the members of the House were unwilling that a single small group of men should have such great powers and the remaining great majority have little direct vote in determining administrative policies that should come before the House for consideration.

All things considered the decision of the House to make the distinction that has been described between the authorization of expenditures and the appropriation of money with which to meet such expenditures, must be deemed to have been a wise one.

The system, nevertheless, gives rise to certain difficulties in its operation, the chief of which is the adjustment of differences between the committees on general legislation and the Committee

on Appropriations. If the authorization of appropriations is to be deemed as a mandate to the Committee on Appropriations to vote the funds, the real authority and responsibility for determining the expenditure program of the government passes from the Committee on Appropriations to the several committees on general legislation, and thus is produced a condition of affairs which it was the purpose of the revision of the rules effected at the time that the Budget and Accounting Act was passed to correct. This position, moreover, ignores the fact that the problem of financing the government involves other factors than that of the absolute merit of the authorizations for the appropriation of funds taken individually. These other factors are the relative merits and urgency of the authorizations, the condition of the treasury, the total of prospective income, and the general policy of the government in respect to such matters as retrenchment, the payment of the public debt, and the reduction of taxation.

If, on the other hand, the Committee on Appropriations takes the position that these acts of general legislation are mere expressions of the willingness on the part of Congress that the appropriations authorized shall be made and that the committee is free to ignore them and to use its own judgment as to whether they shall be rendered effective through the grant of funds, the Committee on Appropriations has in effect a veto on the acts of the committees on general legislation in so far as the determination of the activities of the government is concerned.

This situation is one that cannot be met by any formal rules. The only solution open is that of the adoption of a policy that avoids taking either of the two extreme positions but seeks a middle ground. This, in fact, is what has been done. The Committee on Appropriations, while not looking upon acts authorizing the appropriation of money as orders which it is compelled to put into effect, nevertheless seeks to meet the wishes of Congress as expressed in such acts as far as it can do so consistent with meeting its other obligations of seeing that the total of expenditures authorized is not out of proportion to the general program of the government in respect to debt reduction, of taxes, etc.

As a means of relieving the situation, the present writer, prior to the adoption of the budget system, recommended that the Committee on Appropriations be composed *ex officio* of the chairmen and ranking members of the opposition of the important committees on general legislation.<sup>5</sup> This suggestion has in part been

<sup>5</sup>"The Correlation of the Organization of Congress with that of the Executive," American Political Science Association, *Proceedings*, 1913-14. Republished as a chapter in the author's volume, "The Problem of National Budget," 1918.

acted upon by Senate, whose rules provide that three members of the more important committees on general legislation shall serve on the Committee on Appropriations when the estimates relating to the subject matter of their committees are under consideration.

So far as is known this distinction between acts of general legislation and acts of appropriation has not been given any special consideration by the states in forming their budgetary procedure. Nor is there the same necessity for doing so, since the work of determining the governments activities and providing for its financial needs is relatively so much lighter.

**Legislative Hearings on Appropriation Bills.** A prominent feature of the national budget system is the thoroughness with which the House Committee on Appropriations and to a less extent the Senate Committee on Appropriations, examines into the expenditure proposals contained in the President's Budget. For this purpose the House Committee, which is composed of thirty-five members, sets up subcommittees for the consideration of its separate appropriation bills that are to be framed on the basis of the budget. These committees hold elaborate hearings, at which the heads of departments, bureau chiefs, and other administrative officers are summoned to give testimony regarding the needs of their respective services as set forth in the budget. These hearings are reported stenographically and printed so that the testimony produced is available, not only to the members of the committee, but also to all members of both houses for use at the time that the bills are under consideration for amendment and action. At these hearings a great mass of information regarding the operations and financial requirements of the service is secured and on the basis of this information certain changes, the aggregate result of which is a reduction in estimates, are made. It has been pointed out that no such legislative scrutiny of executive proposals is made under the British system and that this lack of legislative review is considered by many members of Parliament a serious defect in that system.

In the states there is a general agreement that the legislative hearing upon the budget is an essential feature of satisfactory budget system. This finds expression in the provision contained in the model state constitution drafted under the auspices of the National Municipal League, that:

The legislature shall provide for one or more public hearings on the budget, either before a committee or before the entire assembly in committee of the whole. When requested by not less than one-fifth of the members of the legislature, it shall be the duty of the governor to appear in person or by a designated representative before a

committee thereof, to answer any inquiries with respect to the budget.

Whether expressly provided by law or not the holding of hearings of this kind is very general on the part of the states having a budget system. These hearings differ from those held by the Committees on Appropriations of Congress in that they are usually less thorough, and are not reported stenographically and printed.

**The Problem of Deficiency Appropriations.** In theory, the general appropriation act, or acts, formulated on the basis of the budget should make complete provision for the expenditure needs of the government during the year to which they relate. In practice, this desirable condition of affairs, in the case of national governments at least, rarely occurs. Almost invariably the legislature is confronted with the necessity for the making of such additional appropriations. The need for making additional appropriations is universally recognized as an evil. Apart from all other considerations such appropriations throw the budgetary estimates out of balance and if they amount to any considerable sum may destroy the whole scheme of financing that has been decided upon. They are furthermore, demoralizing in that they tend to weaken the responsibility that the administrative services are under to live within the means that have been granted to them. For these reasons all legislatures seek to set up safeguards to prevent the administrative services from coming before them for additional grant of funds. Unfortunately, however, those safeguards are rarely more than partially effective. It is a matter of no little importance, therefore, to determine what these safeguards are and what further may be done toward attaining the end sought by them.

In considering this problem it is desirable at the outset to distinguish between deficiency appropriations, properly speaking, and supplemental appropriations. No matter how carefully future needs may be considered, it is impossible to foresee a year or more in advance all contingencies calling for the expenditure of money. Whether due to damages caused by catastrophes, such as flood, fire or otherwise, to increased cost resulting from rise in wages or prices, or failure of judgment in respect to expenditure requirements, cases will constantly arise where the funds granted for the support of a service or the prosecution of an activity are inadequate. New legislation will be enacted calling for funds for its enforcement. All such lack of funds gives rise to a real deficiency that must be provided for if the affairs of government are to be properly conducted. All that can be done in reference to them is to use the maximum of care in estimating and providing for future needs and to require the spending services to keep well within their appropriations during the early part of the fiscal year so that they will

have a balance to meet emergencies should they occur. The most effective means for securing this end is that of requiring that the operating services shall, in respect to their current needs, make an allotment of their appropriations by months or quarters, which allotment may not be exceeded except upon express authorization by some superior authority such as the head of the department or the chief executive acting through his bureau of general administration, and shall set up a reserve fund that may be drawn upon only to meet emergencies. Both of these devices, the allotment of appropriations and the setting aside of a portion of the total appropriation as a reserve fund, have been prescribed by the national Bureau of the Budget with the result that this evil of deficiency appropriation has been reduced to a minimum.

In this experience, the fact of greatest importance is that all attempts by Congress to curb the deficiency evil by legislative action proved ineffective, and it was only by executive action in administering the appropriation acts that the evil was finally brought under control.

**Continuing Appropriations and Special Funds.** One of the great advantages of the use of a budget as the central instrument of financial control is that, at regular fiscal periods, a complete survey is made of the financial situation and, on the basis of this survey, a decision is reached regarding the financial program for the future. If this system is to work with full effectiveness, both the chief executive in framing the budget and the legislature in acting upon it, should have their hands free. Unfortunately, in all of our governments, national, state, and local, certain practices have developed which seriously interfere with this freedom. It is a common practice on the part of the states, in levying property taxes, to prescribe the purposes to which the proceeds of these taxes shall be devoted. These constitute so-called mill taxes, since the laws establishing them provide a tax of so many mills on the dollar for one purpose, such as roads, so many mills for another purpose, such as support of the state university, etc. The laws levying these taxes are at the same time revenue and appropriation acts. Laws are also frequently passed providing that certain receipts, such as those from fines, royalties, and the like, shall be devoted to particular purposes. Finally, the practice has been followed of making what are known as continuing or permanent appropriations, that is, of prescribing by general legislation for the grant of designated sums for particular purposes annually for an indefinite time in the future. In the case of the national government, permanent or continuing appropriations of this character amount to over one billion dollars. The result of these practices is that

<sup>6</sup> Among the states Wisconsin has gone further than any other state in the direction of financing the government through continuing appropriations.

the chief executive in framing and the legislature in taking action upon the budget, find a no inconsiderable part of the total income to be expected already earmarked and appropriated for particular purposes, and thus find their hands more or less tied in determining the allotment of funds.

There can be little question that this whole policy of earmarking particular receipts for particular purposes and of passing permanent or continuing appropriation acts is an undesirable one. As has been pointed out, it does violence to the fundamental principle upon which a budget system rests. The problem of voting funds is one that must consider relative as well as absolute values. Most purposes for which public funds are granted have an undoubted absolute value. The real problem is to determine the relative value and urgency of these needs and to allot the total available for appropriation accordingly. Conditions in respect to the relative strength of these various needs constantly change. Once every year or two years is not too often to review the situation and make provision in view of existing conditions. The practice, moreover, has the serious defect of lessening legislative control. The fact that expenditures called for by these acts are permanently authorized means that items for them may not be included in the annual appropriation bills and they do not come before the legislature for review when these bills are under consideration. The fact that these grants have been made may not even be known by the members of the legislature. When the appropriation bill for the Department of Agriculture, for example, is under consideration it is natural that most members of Congress and the public should believe that the total carried by that bill is the total to be voted for the support of that department. Only the comparatively few who are familiar with the system know that this department will have a further sum of over \$12,000,000 which is provided for by permanent legislation. The system, moreover, greatly complicates the whole problem of accounting and reporting through the necessity to which it gives rise of the establishment of special funds. The existence of these special funds is responsible more than any other factor for the difficulty that is encountered in so stating public accounts that the financial condition and operations of the government may be clearly seen.

These features which we have been considering are to a large extent an inheritance of pre-budget days. One of the most important reforms needed in the financial administration of American governments is that of abolishing a large part if not all of these special provisions and of adopting the principle that all items of income of the government shall be covered into the treasury to the credit of the general fund and that all expenditures shall be authorized only by items contained in the general appropriation acts. The

only important exception to this principle is that of revenue-producing enterprises which, as has been pointed out, should be deemed to be autonomous financial agencies with their own receipts and expenditures.

**Remedy for Failure to pass the Appropriation Act.** Under the American political system, the contingency is always present that the legislature may fail to pass the appropriation acts necessary for the support of the government prior to its adjournment. This failure may be due to a deadlock between the two houses or between the legislature and the chief executive to whom such bills must go for approval. It is a testimony to the political capacity of the American people that this contingency has in fact rarely given rise to serious trouble. When a deadlock of this kind has occurred in the national government, it has been met by Congress immediately prior to adjournment passing a joint resolution extending the provisions of the existing appropriation acts. In our dependencies, where there is apt to be a conflict between the legislative branch controlled by the native population and the executive representing the home government, this contingency has repeatedly occurred and has brought with it a serious condition of affairs. When the present writer was Treasury of Porto Rico and Chairman of the Committee of Finance of the upper house of the insular legislature, the lower house on one occasion refused to pass the general appropriation bill until its wishes in respect to other legislation in no ways connected with the appropriation bill were met. To this demand the upper house refused to comply, with the result that the legislature adjourned with no provision for meeting the financial needs of the government for the ensuing fiscal year. This situation was met by the Governor appealing to Congress, which was fortunately in session, which passed an act placing at the disposal of the Governor for allotment a sum from the insular treasury equal to the total appropriations for the existing year. To prevent a recurrence of this happening the organic act for the government of the island was amended so as to provide that in case of failure to pass the general appropriation act a sum equal to that appropriated for the year in progress should be deemed to be appropriated. Provisions similar to this were already to be found in the organic act for the government of the Philippines. The states have no superior body such as Congress to which appeal can be made. It would seem to be advisable, therefore, that the constitutions of all the states should contain provisions for meeting this contingency along the lines of the organic acts for the dependencies that have been mentioned. In the Philippines this provision has had to be resorted to on more than one occasion.<sup>7</sup>

<sup>7</sup>The action of Bismarck, in his contest with the legislative assembly of Prussia over the increase of the army, in asserting the right to act

**Powers of the Chief Executive to Veto Appropriation Items.** The great majority, probably as many as three-fourths, of the states provide in their constitutions that the governor shall have power to veto specific items in appropriation bills without vetoing the entire bill. No such grant of power is made by the federal constitution to the President.<sup>8</sup> On its face the possession of this power by the governor would seem to be of value as placing in his hands the opportunity of purging appropriation bills of items of doubtful merit, and especially ones having for their purpose the serving of special interests rather than the general welfare. That it is believed to be of value by many students of public finance, is shown by the fact that the model state constitution, drafted under the auspices of the National Municipal League, to which reference has repeatedly been made, contains such a provision.

In spite of this widespread adoption and endorsement of this provision, the question may be raised as to whether it finds any necessary or even legitimate place in a properly developed budget system. Even at the time, prior to the modern movement for budgetary reform, when the governor had no direct participation in the framing of the government's financial and work program, the system in practice for the most part failed to give the results that might be anticipated of it. Often, the governor for political or other reasons refused to exercise the power. In other cases he used it for the purpose of disciplining members who refused to follow his wishes in respect to legislation. In still other cases the existence of this provision has had as its result the practice of the legislature of deliberately inserting indefensible items in appropriation bills and of appropriating a total in excess of the revenues of the government, the "buck" thus being passed to the governor to eliminate the objectionable items and to reduce the total of the appropriations to a proper amount. The existence of this power has the defect that it diffuses responsibility, transferring it in part from the legislature where it properly belongs to the chief executive, and throws upon the latter a responsibility that may be abused. Though the writer is opposed to this provision in the case of the national government at least, he recognizes that conditions in particular states may warrant its adoption. At the same time he believes that its value can easily be overestimated.

through the legislature had failed to vote the appropriation act and there was no provision in the Prussian constitution for continuing the existing appropriation in such contingency, is well known. It gave rise to what is known as the Prussian theory of the budget; namely, that where the concurrence of the two branches of the government was required for the conduct of governmental affairs one branch alone by its failure to act could not stop the wheels of government.

<sup>8</sup>One prominent student of political science has maintained that the President has this power. See Henry Jones Ford: "The Cost of Our National Government," 1910, p. 117. If he ever had this power, which is exceedingly doubtful, it has been lost by failure to use,



## CHAPTER XXXIII

### EXECUTION OF THE BUDGET: EXECUTIVE CONTROL OF EXPENDITURES

The passage by the legislature of the appropriation act or acts represents the second of the three phases of a budget system. Following this comes the third phase, that of putting the decisions thus arrived at into execution. Involved in this phase are all the problems of administration that have been discussed in the preceding pages. There remain, however, certain questions relating especially to matters of financial administration that require further consideration. Much the most important of these are the extent to which appropriation shall be deemed to be mandatory in character or mere authorizations to spend, which may be availed of or not, according to the discretion of the administrative authorities, and whether this discretion, if it exists, shall be deemed to lie wholly in the hands of the heads of the services for the support of whose operations the money is granted, or be subject to the superior direction and control of the chief executive. It is manifest that the answer that is given to these questions has a great influence in determining the character and extent of the responsibilities of the chief executive for the conduct of the financial affairs of the government. If appropriations are deemed to be mere authorizations to spend, and cannot be expended except with the approval of the chief executive, that official is in complete control of the situation. If the contrary principle obtains, the responsibility of the chief executive is of a more general character, consisting merely in seeing that all legal requirements are observed by the spending services and that efficient methods are employed in carrying on the work.

**Executive Control of Expenditures in England.** In England the first of these principles is the one that is followed. There, appropriations are not made directly to the spending services, but represent grants to the Treasury, through which that body, within the limitations set by the appropriations, can meet the expenditure needs of the services. No money is available to the spending services until it has made requisition therefor to the Treasury and the latter has approved such requisition and ordered payment thereof. While it is true that, in normal times, these requisitions are usually met the possibility always exists that the chief executive, the Premier, acting through his Chancellor of the Exchequer, may refuse to do so. If he finds, for example, that expectations in

respect to income are not being realized or that the government is compelled to meet unexpected demands due to war, threatened war, or industrial disturbances he can put on the brake and enforce retrenchment. Under this system the chief executive is responsible, not merely for the formulation and in effect, for action upon the budget but its subsequent execution as well. It is his duty to formulate and secure the adoption of a budget that is in proper balance and to preserve this balance in operation. Even when this balance is not threatened, it is his duty to see that no expenditure is made, even though authorized, that is not warranted by existing conditions.

### **Executive Control of Expenditures in the United States.**

In the United States the principle that has always been followed is that appropriations are direct grants to the spending services and constitute credit accounts with the treasurer which these services can draw upon without further authorization. This system originated at a time when little or no responsibility was thrown upon the chief executive even for formulating a financial and work program and much less for controlling such plan as might be adopted by the legislature. With the development of the budget system and the adoption of the policy of conferring upon the chief executive the powers and duties of a general manager, a tendency may be observed to depart from this system and approach more nearly that of England. Only in small degree has this tendency found expression in statutory enactments. For the most part it is evidenced by chief executives taking more seriously their duties as head of the administration and influencing administrative action by making known their wishes to their subordinate administrative officers rather than by issue to them of orders claimed to be based upon any legal authority. As has been pointed out, a basic feature of the reorganization of the administrative branches of the state governments by which the governor has been placed at the head of the administration has been the vesting in that officer of the power to appoint and to remove the heads of the administrative departments, and, through them, to control, if need be, the selection and tenure of other directing personnel. The possession of this power places the governor in a position where he can make his will prevail, even though he may have no legal authority to issue orders of a mandatory character to his subordinates. The increasing tendency of the public to hold governors responsible for the conduct of administrative affairs makes it easier for them to make their will prevail in this way.

**Executive Control of Expenditures in the National Government.** In the national government this tendency for the chief executive to control the expenditure of appropriations has been

very marked since the adoption of the budget system in 1921. Though the act providing for this system conferred no additional powers upon him in respect to the expenditure of funds, the President has from the start of the new system undertaken to bring under control the expenditure, as well as the estimate, side of appropriations. His first step was the adoption of the practice of holding semi-annual meetings of the heads of the departments and their chief administrative subordinates at which he and his Director of the Budget might make known to such officers the general policy of the administration in respect to expenditures and business methods. At the first of such meetings, held June 29, 1921, the President pointed out that according to the best estimate of the Treasury Department, the operations of the fiscal year 1922, about to begin, would show a deficit if all appropriations granted were expended. He stated that it was his determination that this should be avoided. He accordingly called upon the heads of all the departments and establishments to examine the appropriations for the support of their services and to report to the Bureau of the Budget the amounts under each appropriation the expenditure of which might be foregone. In compliance with this request, a total of \$112,512,628.32 was reported as possible economies. It was then ordered that this amount be set up as a Budget Reserve that should not be drawn upon except with the approval of the Director of the Bureau of the Budget. In fact, a somewhat larger sum than this was saved from the appropriations, that is, not expended, and the fiscal year 1922 closed with a surplus instead of a deficit.

Commenting on this, General H. M. Lord, who had succeeded General Dawes as Director of the Bureau of the Budget, at the Second Annual Meeting of the President and the chief administrative officers of the Government, held on July 11, 1922, said:

This would not have been accomplished without vigorous Executive pressure, the great driving power of the first Director of the Budget, and the co-operation of the executive bureaus.... During this current fiscal year all proposed expenditures must be given the closest scrutiny, and no wasteful, extravagant, or unnecessary expenditures should be allowed to pass unchallenged; and, further, no obligation should be incurred this fiscal year that can be postponed without serious detriment in the public service.... The Budget law gave the President an agency for imposing policies of economy on the Government's many establishments, an agency which he is utilizing and proposes still to utilize for the purpose of saving millions of dollars of the public's money.

The policy of setting up a general budget reserve to be expended only upon the approval of the Director of the Bureau of the

Budget was continued in the modified form of requiring each department and establishment to set up such a reserve that could not be expended except upon the authorization of the head of the department or establishment. The change was made because it was deemed advisable to place primary responsibility for conserving appropriations, and if possible not expending all the moneys granted, upon the department and establishment heads. It was felt that this could safely be done, since the wishes of the President in respect to this matter were so thoroughly understood and because steps were taken to secure the rigid enforcement of the act of 1912, known as the Anti-Deficiency Act, which requires all spending services to allot their appropriations at the beginning of the year so as to ensure that such appropriations will not be exhausted before the end of the year and expenditure plans are not made in excess of appropriations for meeting them.

Regarding the new reserve system, General Lord, in a recent address, said:

The departments and independent establishments of the government in compliance with the recommendation of the President, have set aside in a fund termed a General Reserve an amount totalling many millions of dollars which they will try to save. This money is not subject to obligation by the spending agencies in a department without specific authority from the department head. These agencies are expected to plan their program for the fiscal year as if the money in the General Reserve did not exist. The anti-deficiency act, which requires appointment of funds for an entire year to prevent exhaustion of appropriations in the first half of the year with resulting deficiency appropriations is being strictly enforced, not only with a view to prevent deficiencies, but with an eye to money allotted to the quarter.

The foregoing action has been supplemented by the issue by the President through the Bureau of the Budget, of an order, dated July 11, 1922, directing that no service, even though authorized so to do by law, shall undertake any new activity until notice of its proposal has been given to the Bureau of the Budget.

This action, however, by no means implies the full adoption by the national government of the English principle that no funds shall be available for expenditure until allotted by the central organ of control, the British Treasury. It is significant chiefly as an indication of the assertion by the chief executive of authority in respect to the expenditure of appropriations and a tendency that will probably receive constant development.

**Executive Control of Expenditures in the States and Cities.** Information is not at hand to permit of a statement similar to that which has been made for the national government of the extent to which, in states that have adopted a budget system and reorganized their administrative system, the practice has developed of the chief executive exercising a control with respect to the availability for expenditure of appropriations made by the legislature. There can be little doubt, however, that in those states and in the cities, and particularly in those having the city manager type of government, there is an increasing tendency for a control of this character to be exercised. How far this will ultimately go, is a matter of uncertainty. This, it should be remarked, is but one phase of the movement for the erection of the office of chief executive into that of general manager and the giving to him of an office of general administration through which he can meet the new responsibilities thrown upon him, and the account here given should be read in connection with the two chapters dealing with this movement that have previously been given.

## CHAPTER XXXIV

### COLLECTION, CUSTODY, AND DISBURSEMENT OF PUBLIC FUNDS

In the preceding chapters dealing with the budget, consideration has been given to that branch of financial administration having to do with the formulation, adoption, and control of financial policies. The present and succeeding chapters have for their purpose to describe the character of the work that has to be done and the problems that are presented in putting these policies into execution. Among these problems those having to do with the collection, custody, and disbursement of the funds needed for the support of the government constitute a distinct category.

**Assessment of Public Revenues.** In considering this branch of financial administration, the first point to which attention should be directed is the distinction that exists between the task of determining the amounts due the government and that of collecting them.

When the money to be collected partakes of the nature of taxes, the first of these tasks is usually designated as that of assessment and the second that of collection. In the case of all revenues, however, the two elements are present. This distinction is one of practical importance from the administrative standpoint, since the question is at once presented whether the two operations should be entrusted to the same or to two distinct services. In respect to this, practice differs. As regards the general property and real estate taxes, most American states and cities distinguish clearly between the two operations and vest their performance in separate services having some such titles as office of assessor taxes and office of collector of taxes. In some cases, however, both tasks are entrusted to single service. When this is done, it is usual, however, to provide for distinct subdivisions of the single service having each operation in charge. In marked contrast with this is the system employed by the national government for the administration of its customs and internal revenue systems. Here the same service, in each case, has charge of both the determination of the taxes due and their collection.

Each of these two systems has certain advantages which make it difficult to lay down any general rule that should be followed

in all cases. The chief advantages of the first lies in the apparently greater control that can thereby be secured over the collection of moneys due the government. As will be pointed out when we come to consider the question of the audit of public income, it is of first importance that that audit shall have for its purpose to determine both that all moneys coming into the hands of officers of the government authorized to receive public dues are duly accounted for, and, in addition, that all moneys which should be collected by them are in fact collected or the reason for their non-collection properly shown. The performance of this second phase of the duty of the audit department is evidently facilitated when one officer or service has the duty of determining and certifying to the audit department the amounts due from taxpayers or others, and another officer or service has the duty of collecting these amounts. Where the same service both determines the amount due and collects it, it is not so easy to check one of these operations against the other.

The objection to the independent services system is that it may entail additional expense through the necessity for maintaining separate organizations, the duplication of records, and the interchange of communications between the two. The best method would seem to be that of concentrating in a single service the duty both of assessing the sums due and of their collection and of organizing the service in such a way that the two operations are entrusted to distinct subdivisions of the service.

**Collection of Public Revenues.** The only problem of general importance having to do with the collection of revenues, after their amount is assessed or determined, is as to whether use shall be made of single service or a number of services. In considering this problem a distinction must be made between the three classes of revenues: (1) miscellaneous, (2) revenue-producing enterprise receipts, and (3) taxes.

Miscellaneous receipts include all those items of income which are received by governments as an incidental feature of their operations. The more important of these are fees, fines, royalties, payments for services rendered, proceeds from the sale of materials, equipment and supplies no longer needed, and the like. As these items occur in connection with the current work of the operating services, they can usually be best collected by such services at the time of their accrual. As will later be pointed out, all such collections should be promptly transmitted to the treasurer and means must of course be provided for ensuring that all moneys due the government in this way are in fact collected and transmitted to the treasurer.

In respect to receipts of revenue-producing enterprises it has already been shown that undertakings of this character should be given administrative and financial autonomy. Their income should be both assessed and collected by their own officers. In most cases, however, use can be made of the general treasurer of the government as the custodian of their funds, and when this is the case, all collections should be promptly transmitted to that officer.

In respect to taxes it is believed that there are few if any cases where it is not in the interest of simplicity of organization, efficiency, and economy to make use of a single collection service. In the opinion of the writer this applies even in the case of such large and seemingly difficult systems of taxes as those of the customs and internal revenue of the national government. At the present time the national government maintains two distinct services for the assessment and collection of these dues, the Bureau of Customs and the Bureau of Internal Revenue. It is believed that those two services could with advantage be consolidated into a single Bureau of Revenue.<sup>1</sup>

If the decision is reached to make use of a single agency for the collection of all public dues other than revenue-producing enterprises and miscellaneous receipts, the question is presented as to whether this agency should be a special officer, to be known as collector of taxes, or the treasurer. Stated in another way, the question presented is as to whether the function of the treasurer should include the collection of revenues or be restricted to their receipt and custody after they are collected. In the case of a government of the size and complexity of the national government, it is probably desirable that the collection agency shall be independent of the treasurer and the latter's responsibility shall begin only after the collections made have been turned over to him for safekeeping. In the case of small cities, and even in the case of the large cities and states, there would seem to be many advantages in placing responsibility for the collection of taxes upon the treasurer. If this is done the detail work of making and enforcing the collection in the case of large governments, will have to be attended to by a subordinate official, who will thus perform the duties of a collector of taxes. In such governments, therefore, the only distinction between the two types of organization is that, in one case the collector of taxes is an independent officer, and in the other, a subordinate official of the treasurer. The two systems do differ fundamentally, however, in respect to where ultimate responsibility for the collection of taxes shall rest.

<sup>1</sup> For the arguments in favour of this proposal, see W. F. Willoughby "The Reorganization of the Administrative Branch of the National Government," Institute for Government Research, Studies in Administration 1923,



**Custody of Funds : Office of Treasurer.** A government derives its income from a great variety of sources. No matter how great an effort is made to concentrate responsibility for the collection of this income, use must be made of a number of officers and services for this purpose. All governments, as, indeed, all private industrial undertakings, have found it desirable to provide that, with certain exceptions to be noted, all moneys collected by collectors of revenue shall be turned over by them to an officer known as "treasurer." By so doing, all the scattered revenues of the government are brought together into a single pot so as to be available for meeting any of the expenditures of government and responsibility for the safeguarding of the government's money is concentrated in a single individual. This system for the receipt and custody of public funds constitutes what is known as the treasury system. The duties of the treasurer may be briefly defined as those of receiving, holding in safe custody, and disbursing upon proper order all public funds, and of safekeeping all financial securities and papers of like character. From the accountability standpoint, the responsibility of this office may be reduced to the single obligation of being able at all times to account for all moneys and securities coming into his possession. His accountability is, thus, not unlike that of the ordinary banking institution.

**Physical Custody of Funds.** In primitive times when the operations of the government were on a comparatively small scale and financial transactions were almost wholly carried on through the actual transfer of each, it was customary for the treasurer to make use of a great chest or box with elaborate locks for the custody of funds and a more or less elaborate procedure, in which a number of officers participated, in making deposits in and withdrawals from this chest. With the enormous growth in the financial operations of governments, any such practice would now be impossible. The development of the modern banking system and the use of drafts in the settlement of obligations have, moreover, provided another means for caring for funds and making payments. It is now the universal practice for governments, like private individuals and corporations, to make use of banks for the custody of their funds.

The advantages of this system are not wholly one of convenience. The financial transactions of governments are now on such a scale that they have an important influence upon general financial conditions and particularly upon the amount of money in circulation and available for use. The physical withdrawal of currency for circulation, such as would occur at times of tax payments or the sale of large issues of bonds, or the sudden payment of large sums in the way of redemption of debt or otherwise would gravely affect currency and credit conditions. All this avoided under the

system where public funds are deposited in the ordinary banking institutions of the country and are available in substantially the same way as other private deposits. Further advantages are that the work of making and controlling deposits and payments is greatly facilitated and that the governments are able to obtain a by no means negligible income in the way of interest paid by the banks on the money so deposited.

Though there is no difference of opinion regarding the advantages of this policy of making use of banking institutions as custodians of public funds, there is room for considerable variations of practice in putting this policy into execution. The first requirement is, of course, safety. This is secured by distributing deposits among a number of banks, making a selection of only the stronger institutions as depositories, limiting the amount of the deposits in any one institution to a certain ratio to its capital and surplus and requiring of the banks the execution of fidelity bonds or deposit of government bonds. A second requirement is that, as far as circumstances permit, an equal opportunity will be afforded to all banks meeting the required conditions to act as depositories. Appointment as depositories of public funds is highly prized by banks because of the increase in their deposits resulting therefrom, and the prestige that they derive from serving in that capacity. Finally, the arrangement should be such as will give to the government the highest return in the way of interest on deposits that is consistent with safety. This matter of interest is one of little importance. According to the reports of the Bureau of the Census, over four per cent of the total income of the states is derived from this source. In some of the states the rate of interest that must be paid by depositories of public funds is fixed by statute. In others, the statute fixes the minimum rate, it being the duty of the treasurer to secure a higher rate if possible. A method now coming into favour is that of fixing the other conditions to be met and selecting those banks which agree to pay the highest interest. As is well known, the value to banks of accounts is dependent upon the extent to which they are active or inactive. Both from the standpoint of convenience and that of securing the maximum return in the form of interest, it is desirable, therefore, that a government shall make a distinction between depositories carrying the active and inactive accounts. The most desirable system is probably one where the government maintains but one active account, against which are drawn cheques for substantially all payments, the deposits in other banks largely inactive and drawn upon only in order to replenish the active account. Where this distinction is made, the bulk of the government's funds can be deposited to the credit of the inactive accounts upon which a relatively high rate of interest can be obtained. Accounting operations are, as

has been stated, much simplified by having all detail payments made by a single institution.

In times past failure on the part of the states to meet the requirements that have been mentioned was productive of loss of public funds and grave political evils. Discretion then very generally rested with the treasurer in respect to the selection of public depositories, the fixing of the rates of interest, etc. This discretion was in many cases exercised for the purpose of securing personal profit or rewarding political supporters. Deposits were made in those banks which contributed most liberally to campaign funds; interest was paid to the treasurer personally on funds deposited by him; or he was granted loans without interest or interest at a reduced rate. Much of the corruption in state politics centred around this control by the treasurer of the use of public funds. These evils have now been practically brought under control and the general situation as regards the use of banks as depositories of public funds is now fairly satisfactory.

**Evolution of Present Depository System of the National Government.** Patent as is this desirability of making use of ordinary banking institutions for the physical custody of public funds it is only within very recent years that such a system has been unqualifiedly accepted by the national government. It is accordingly worthwhile, both in order to understand the present treasury system of that government and to appreciate the motives that have led to its adoption, to give briefly the history of the changes through which the treasury system of the national government has passed.

On the establishment of the government in 1789, the opinion was general that for the care of the public funds and the performance of other duties in connection with the floating of bonds, need existed for a national bank that should owe its existence and powers to a special charter granted by Congress, which should function as a quasi-public agency. During the latter part of the war with England use for this purpose was made of the Bank of North America, which had been chartered by Congress in 1781. On the declaration of peace the government severed its connection with this bank, which thereupon became a purely private institution operating under a charter from the State of Pennsylvania.

In 1791 Congress created the first United States Bank, which was made the central depository for public funds. Use, however, was also made of other banking institutions for the receipt and custody of public moneys, at least eleven local banks being used for this purpose in 1811. In that year Congress refused to renew the charter of the United States Bank, the feeling being that it

was an undemocratic institution and that the advantages of serving as public depository should be more widely enjoyed. For the next five years use was made of private banks exclusively for the custody of public funds.

In 1816 Congress created the second United States Bank. The act providing for the creation of this bank provided that:

The deposits of the money of the United States shall be made in said bank or branches thereof unless the Secretary of the Treasury shall at any time otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress if it is in session and if not immediately after the commencement of the next session of such order or direction.

It is evident that it was the plain intent of Congress that exclusive use should be made of the United States Bank for the deposit of public funds unless there was a real reason for taking other action.

This is not the place to enter into any account of the bitter contest between President Jackson and Congress over the use of this bank as a fiscal agency of the government. The facts in regard to that memorable controversy are known to all students of American history. It is sufficient to say that the President's will prevailed, and that in 1833 he caused to be discontinued the deposit of any public moneys in the Bank and the withdrawal of government moneys already on deposit there through the drawing of drafts upon such deposits in the payment of public obligations.

Following the discontinuance of the United States Bank as a national institution, the government pursued the policy of depositing all public funds in state banks. The results were extremely disastrous. Regarding this period, Henry C. Adams has written:<sup>2</sup>

The quarrel of President Jackson with the Second National Bank, the withdrawal of deposits from this bank and their distribution to state banks, the consequent expansion of state banking, the increase of speculation, the extension of public improvements under the insane enthusiasm of State governments and private corporations, the commercial panic of 1837 and the banking panic of 1843 which resulted from this unhealthy commercial activity, the losses sustained by the Federal Government through its deposits with State banks, the difficulties encountered by the public treasury on account of the great variety of money offered for the payment of public dues, the embarrassment to business occasioned by the desire of the Federal Govern-

<sup>2</sup>The Science of Finance, pp. 215-16.

ment to maintain a specie basis for its receipts and expenditures—these, and all other facts of that period of commercial disaster and financial disgrace from 1830 to 1845, are well known to the student of American history.

It should be noted that these bad results were due, not to the system of making use of state banks as depositories of public funds, but to the failure to take the action that would ensure that the banks as banks were organized and conducted on a sound basis. The failure of the system led, however, to the opinion that the government ought to divorce its operations wholly from the banking business and should make provision for the care of its funds by agencies directly operated by itself. Congress accordingly in 1846 passed the act entitled "An Act to provide for the better organization of the treasury and for the collection, safekeeping, transfer and disbursement of public revenues," establishing what was known as the independent or sub-treasury system. This act provided for the creation at Washington of a central treasury and sub-treasuries at six other places, and required that all public revenues should be deposited in them.

For fifteen years use was made exclusively of these institutions for handling of public funds. Into them were paid all government moneys and upon them were drawn all drafts for the payment of public obligations. The financial problems arising out of the Civil War necessitated a departure from this system. In 1863 the national banking system was established, one of the features of which was the authorization given to the Secretary of the Treasury to make use of member banks of this system as depositories of public moneys except customs receipts. At the outset the banks were required to deposit with the Secretary of the Treasury national bonds equal in par value to the amount of deposits held by them as a guarantee that the moneys so deposited would be repaid on demand. This requirement was, however, progressively relaxed so as to permit of the deposit of almost any kind of bonds satisfactory to the Secretary of the Treasury. The conditions under which use was made of these banks as depositories of public funds were summarily stated in the interesting report on the work performed by the sub-treasuries by the Bureau of Efficiency in 1918 as follows:<sup>3</sup>

The usual practice after the Civil War had been to allow the revenues collected by government agents to accumulate in the banks. The reason why this was done was a desire to prevent the accumulation of a surplus in government vaults and to relieve stringencies in the money

<sup>3</sup>Letter from the Chief, Bureau of Efficiency, transmitting report of the U. S. Bureau of Efficiency covering the work performed by the subtreasuries January 26, 1918. 65 Cong., H. doc. 867.

market. In 1903 Secretary Leslie M. Shaw made a new ruling in the meaning of the word "deposit." He thought it desirable that the treasury should take a more active part in easing the market than simply allowing revenues to collect in the banks. He announced, therefore, that he stood ready to transfer money from the treasury to relieve or forestall a stringency. In 1907, further, Congress amended the depository section of the law on the national banks to receive customs dues as deposits. This left the treasurer free to transfer all of his balances if he so desired, whereas formerly one-half of the receipts could not be so used. The public had come to consider it almost a bounden duty of the government to employ its surplus for the relief of stringencies. The amendment of 1907 took away almost the last provision for the compulsory independence of the treasury. The Secretary, however, was not at this time free to check directly against his bank deposits made either by accumulation or transfer, but had to cover them back into the sub-treasuries. This was merely a technical survival of a discarded plan and an unnecessary inconvenience. In 1902 Secretary Shaw introduced two other innovations of importance. He told the banks they need not keep a reserve against public moneys. This released \$100,000,000 as a basis for commercial loans in the New York banks alone. Further he accepted other than United States bonds as security for government deposits. The law passed in 1864 had provided that the deposits should be secured by United States bonds and otherwise. The "and otherwise" was originally taken to mean a personal bond, but Secretary Shaw interpreted the law to read "or otherwise." This practice of accepting other bonds as security such as railroad, municipal, county and state bonds has continued until the present day. However, such bonds are not taken at par but at a discount.

It will be seen from the foregoing that the original end sought by the establishment of the sub-treasury system, that of completely divorcing government operations from commercial banking and currency problems, was wholly defeated by the authority given to make use of national banks as depositories and the increasing frequency and liberality with which this authority was exercised. Though the government suffered no loss of funds through the deposit of public money in national banks the situation where a Secretary of the Treasury had the power of materially affecting monetary conditions by the exercise of his uncontrolled judgment was to say the least, a dangerous and unsatisfactory one. The evils

of this system have been summarized by one of our leading students of public finance as follows:<sup>4</sup>

(1) It led to the continual hoarding in treasury vaults of large sums of money involving substantial administrative expenses and heavy loss of interest. (2) At certain seasons of the year the government's receipts greatly exceed its disbursements as, for example, at times when tax payments are heaviest; while at other seasons, as for example, when pension money or interest on the public debt is being paid, disbursements exceed the receipts. In the former case the money market was disturbed by the government's suddenly withdrawing large sums from circulation and thereby contracting the currency. In the latter case it was disturbed by the sudden pumping into circulation of large sums of money. These operations, when on any substantial scale, tended to effect the interest rates on call loans and the prices of speculative securities. The task imposed upon the Secretary of the Treasury, therefore, of apportioning these large government balances among the banks and the sub-treasuries was a difficult one and one which placed too great power and responsibility over the money market in the hands of a government official. It also led to criticism and jealousy among depository banks. (3) The system caused depository banks to rely unduly upon the Secretary of the Treasury for aid in form of increased government deposits in the times of financial pressure, instead of depending upon themselves and keeping "their houses in order" so as to be ready for emergencies. "The grand fatherly attitude of the Secretary of the Treasury towards the banks" in the matter of government deposits was an expression frequently heard.

Partially for the reasons set forth, but primarily because the whole banking and currency system of the country was unsatisfactory, Congress, after a prolonged consideration of the subject, on December 23, 1913, passed an act completely reorganizing that system. This is not the place to enter into any account of this exceedingly important reform. It is sufficient to say that the purpose and effect was to knit the banking institutions of the United States into a system so that they could act as a unit, or at least in close harmony with each other, in meeting the credit needs of the country, and to provide for a new system of currency that would, automatically, as it were, expand and contract in response to the currency needs of the industry and commerce of the country. This it did by providing for the division of the country into twelve districts and

E. W. Kemmerer, *The A B C of the Federal Reserve System*, pp. 25-25.

the creation of a Federal Reserve bank in each, making all national banks, and at their option other banks meeting certain requirements, member banks of the Federal Reserve bank of their district, and providing for a Federal Reserve Board that should exercise general supervision over the whole system.

The important feature of this act from the standpoint of the administration of the national finances was that it required the Federal Reserve banks to act as fiscal agents of the government whenever called upon by the Secretary of the Treasury, and authorized the latter to make use of such banks and any member banks of the system as depositories of public funds. With the establishment of this system the United States government definitely abandoned the principle of seeking to handle its financial affairs through purely governmental agencies, and went over to that of having such affairs handled by or through the regular banking institutions of the country.

Notwithstanding this, the old sub-treasury system was continued in existence practically without change. This was probably due to the fact, that until the new system was in full working order, it was thought wise to continue to preserve these institutions as agencies for the receipt, custody, and disbursement of public funds. It soon became apparent, however, that with the new system in successful operation, sub-treasuries served no useful purpose, and their maintenance entailed a large unnecessary expense upon the public treasury. By a section contained in the legislative, executive, and judicial appropriation act of May 29, 1920, their abolition was accordingly directed. In pursuance of this authorization the last of the nine sub-treasuries that was in existence at the time the Federal Reserve Act was passed was discontinued. This act, consequently, represents the last step in a century and a quarter's effort to provide a satisfactory system for the physical receipt, custody, and disbursement of the funds of the national government. This system is so thoroughly satisfactory that there would seem to be no likelihood that it will receive any substantial modification in the immediate future.

The general advantages of a government making use of the general banking system of the country for the physical custody and handling of its funds have already been indicated. It is desirable, however, to point out somewhat more specifically the manner in which this system works and its benefits.

An important feature of the problem of handling the public funds of the national government is the fact that the operations of the latter are scattered over a vast extent of territory. Moneys due the government are paid to thousands of different government



officers, located at almost as many points. In like manner it is called upon to pay out moneys in settlement of its obligations at an equally great number of places. Any attempt to have all such moneys paid directly into or out of a central treasury would entail great expense in the transfer of cash and intolerable delay in the settlement of obligations. All this is avoided through the use of the Federal Reserve banks and the member banks of the Federal Reserve System as agencies for the receipt and disbursement of public funds. All that fiscal agents having the collection of public dues have to do is to deposit the cash and cheques received by them to the credit of the Treasurer of the United States in the nearest bank designated as a depository of public funds. On making such deposits they receive certificates of deposit signed by the banks, which are promptly forwarded to the Treasurer at Washington. Through these certificates of deposit the Treasurer can credit the fiscal agents with the payments in the same way as he would were direct payment of cash made to him, as the banks are charged with the funds so deposited. Practically the same procedure is followed in making payments to government creditors. As will later be pointed out, all disbursing officers keep their accounts with the Treasurer. Payment is made by them by drawing cheques or drafts upon such deposits. These cheques or drafts, are, however, payable by any depository bank. All that the payees have to do in order to receive their money is to present the drafts to the most convenient depository, or to deposit them to their private accounts in any bank in which they maintain an account, and these cheques are then collected by such banks through the ordinary clearing house procedure. The paid cheques in time are received by the Treasurer at Washington, and through them and the accounts current and other reports rendered by disbursing officers and depositories, the necessary debits and credits are given to the disbursing officers and banks. The result is that all of the financial transactions of the government, involving the receipt or payment of moneys, are handled in almost precisely the same manner as the financial transactions of private individuals and corporations, the only centralization required being that of the keeping of the accounts at Washington. Incidentally, the government receives over \$4,000,000 annually as interest on deposits, an item of income that was lacking under the sub-treasury system.

**Procedure in Effecting Treasury Receipts and Issues.** In order that the accountability of the Treasurer for all moneys coming into his possession may be clearly established, it is necessary that the fact of the payment of money to or by him shall be evidenced by some formal document or record. In the national government, the documents employed for this purpose are known as "treasury warrants." Under the law governing the accounting

operations of the government, no money is deemed to be formally deposited in the treasury until there has been executed what is known as a "covering warrant." This warrant is signed by the Secretary of the Treasury and countersigned by the Comptroller General and sets forth the essential facts regarding the transaction; that is, the officer making the deposit, its amount, the source from which the money deposited was derived, etc. Through these documents it is possible, by the employment of proper accounting methods, to credit the officer making the deposit, to establish the liability of the Treasurer, and to determine, in such detail as may be desired, the sources from which the government derives its income. Responsibility for determining this accountability rests with the Comptroller General, who, as will later be pointed out, is the chief accounting officer of the government, and who, from the information furnished by the covering warrants countersigned by him, is able to maintain the necessary controlling accounts in his office. A similar system is employed for the issue of moneys from the treasury. No such issue can be taken except upon the issue of a "pay warrant," which, like the "covering warrant," must be signed by the Secretary of the Treasury and countersigned by the Comptroller General. Through the use of these two classes of documents the accountability of the Treasurer can at all times be readily determined. The same or some similar system is, or should be, employed by the states, cities, and other governmental bodies.

**Disbursement of Funds.** In the foregoing description of procedure in respect to the establishment of the accountability of the treasurer, use has been made of the expression treasury receipts and issues. This expression has been employed in order to distinguish clearly between payments made from the treasury for the final settlement of claims and those consisting of moneys paid to other officers of the government with which to make such final payments. This distinction is of importance, since two procedures are open in the making of the detail payments required in meeting a government's obligation. Under the one, all payments to creditors of the government are made directly by the treasurer. In this case a separate pay warrant is issued for each payment made. Under the other, payment of the detail claims is made by other officers, who receive the money with which to make them from the treasurer. In this case the only pay warrants issued are those authorizing the issue of money from the treasury to the officers having the duty of paying the detail claims. Under the first system the treasurer performs the duty of a paymaster or disbursing officer as well as that of treasurer, strictly speaking. Under the second this duty is entrusted to other officers attached to the operating services.

In the case of cities whose operations are carried on in a restricted geographical area and whose financial transactions are on a com-

paratively small scale, the first of these two systems is probably the preferable one. In the larger cities, the states, and especially in the case of the national government, the second is desirable, if it is not the only one that is feasible. The national government at the outset attempted to make use of the first method of having all claims paid by direct action of the Treasurer. This system, however, soon broke down, and the existing system under which most payments are made by some two or three thousand disbursing officers was gradually introduced. The money with which to make these payments is issued to them upon the execution of pay warrants known as "accountable warrants," since the disbursing officers must account for the moneys thus coming into their possession.

Though the normal method of paying claims against the government is that of having these claims paid by disbursing officers, it is still possible, when claims are directly settled in the General Accounting Office, to have them paid directly by the Treasurer, through the execution of what are known as "settlement warrants." This is unfortunate and tends to complicate government bookkeeping. The preferable method would be to have these settlements certified to the proper disbursing officer and paid by him.

**Functions of Disbursing Officers.** The disbursing officer, as has been seen, receives the funds with which to make payment of government obligations in the form of advances from the treasury and for which he must make due accounting. Primary responsibility thus rests upon the disbursing officer to see that only those payments are made which are authorized by law, in compliance with all legal requirements, and that they represent sums actually due. The duties of the disbursing officer embrace these operations: (1) Examination of claims for the purpose of determining whether they represent obligations that should be paid; (2) payment of such claims as are found to be just; and (3) keeping of accounts and rendition of reports showing these transactions in such a way as will establish the fidelity of the accounts for all moneys coming into his possession and will also furnish all the data regarding the financial transactions involved that are needed for general information and administrative control purposes. These obligations are so distinct that, in the case of a large organization, such as an executive department, it may be desirable to entrust them to different officers bearing some such designation as claims examiner, paymaster, and chief bookkeeper, all working under the general direction and responsibility of a chief accounting officer.

The most noteworthy feature of this system of paying government obligations is that, though disbursing officers pay claims against the government from public funds, all such payments are made by them at their own risk and on their personal responsibility.

This means that, should a disbursing officer, through error or otherwise, make a payment which is afterwards found to have been in excess of the amount due or improper, he will not be given credit for it on the settlement of his account; and, unless he can recover the sum paid from the person to whom it was paid, or can secure from the legislature special legislation relieving him from his liability, he will have to stand the loss from his own pocket. The legal basis for this feature is usually found in the provision of law that a final settlement of claims against the government is only made by the auditor, or, in the case of the national government, by the General Accounting Officer, presided over by the Comptroller General. Until all payments by disbursing officers have been audited and found correct by this officer, they are, therefore, deemed to be of a provisional character.

The advantages that this system offers to the government are evident. It permits of the prompt payment of obligations by officers directly attached to the spending services and in a position to secure full information regarding the justice of claims it imposes upon the officer making the payment the strongest sort of an incentive to use every possible care to avoid making improper payments; and it gives to the treasury a high degree of protection. This protection against loss is further guaranteed by the requirement that every disbursing officer, before entering upon the performance of his duty, shall give bond with adequate sureties conditioned upon his accounting for all moneys coming into his possession. The amount of this bond is usually placed at a sum in excess of the amount of money that the officer will have in his hands at any one time.

It might seem that it would be difficult to secure officers who would be willing to assume the risk required by this system. This is not so, since, in the case of the national government, at least, this risk is largely avoided by the following two facts. The first is that whenever a disbursing officer has any doubt regarding the propriety of making a payment, he can submit the matter to the Comptroller General and secure an advance ruling which will relieve him from responsibility. The second is that where a payment, subsequently disallowed, has been made in good faith and after the exercise of due care, it is usual for Congress to relieve the disbursing officer of his liability by the passage of a special relief act. Furthermore, the disbursing officer has his recourse against the person to whom the money was paid. As most of these payments are made to government employees or responsible contracting firms, the securing of the repayment can usually be enforced without too great difficulty.

**Custody of Disbursing Officer's Funds.** Until a comparatively recent date, the moneys advanced to disbursing officers of the national government were paid over to them in cash or in the form of a draft upon the Treasurer, which the disbursing officer deposited to his credit as disbursing officer in some bank. This system had a number of disadvantages, chief of which were: that a large sum of money amounting to millions of dollars was at all times withdrawn from the treasury and that the government had no means of knowing currently the course of payments made by disbursing officers and, consequently, the state of their bank balances. On February 1, 1913, Secretary of the Treasury MacVeagh issued an order, fundamentally changing this system. It provided that, thereafter, all advances to disbursing officers should be made in the form of grants of credits to such officers with the Treasurer of the United States. This meant that, thereafter, all disbursing officers carried their accounts as disbursing officers with the Treasurer of the United States instead of private banks. Under this system all risk of loss through the possible failure of banks carrying disbursing officers' accounts was eliminated, and no money left the treasury except as actual payments were made to government creditors. The cash balance of the Treasurer was accordingly increased by the amounts representing the combined balances of the disbursing officers. As the government is a large borrower of money on interest-bearing securities, this made it possible for the government to apply this increased balance to the payment of such interest-bearing securities or to refrain from borrowing in this way to a like amount. The new system thus carried with it a material saving in payments required for meeting interest on its outstanding indebtedness. This change was, furthermore, but a part of a new system developed by Secretary MacVeagh, under which payments both to and by the government were made by cheque instead of in cash and the cashing of treasury cheques was made obligatory upon all depositories of public funds. Furthermore, since all depositories were required to send to the Treasurer daily all cheques by disbursing officers cashed by them, the Treasurer for the first time was able to have a far more exact knowledge of the financial accounts of the government than had been possible under the old system. Regarding the general advantages of this system, Secretary MacVeagh, in a letter addressed to the President of the Senate, under date of February 21, 1913, said:

As the daily payments of the government are practically equal to its daily income, the desirability of a method whereby the receipts and payments shall clear each other is apparent; and the method to be complete should bring about this clearing before the point is reached of converting the cheques into currency in the sub-treasuries. The new

plan, regarding which the Senate has made inquiry. is designed to accomplish this result and will accomplish it as a matter of course.

All government moneys in the banks are to the credit of the Treasurer of the United States. This feature of new plan makes it possible for the first time for the Treasury to have a far more exact daily knowledge of the financial accounts of the government; for against the credit given each disbursing officer with the Treasurer of the United States is charged the cheque drawn by the disbursing officer and paid by the depository banks and sub-treasuries and sent daily to the treasury. The banks making these payments for the government out of their authorized balance are furnished daily with government deposits sufficient to restore the balance to its fixed amount. In this way, as previously stated, the daily income will in the banks meet and clear the daily expenses of the government and only the excess of income over disbursement will be deposited in currency with the sub-treasuries. Another advantage of the new system which is of peculiar importance is the added convenience to the creditors of the government. Cheque drawn on the Treasurer of the United States are now good at par whenever they may be presented, since any depository will pay them. . . . The purpose, therefore, of the new system is to so handle the government's income as to meet its payments with the same convenience to its creditors and with the same par values that are customary in the best regulated private business and so that only the excess of government receipts shall find its way into the treasury or sub-treasuries.

This system of having all public funds stand to the credit of the Treasurer of the United States but of having the deposit of all government receipts made by cheque into banks designated as government depositories and of having these banks cash all disbursing officers' cheques presented to them, taken in connection with the abolition of the sub-treasury system and the use of the Federal Reserve banks as fiscal agencies of the government, puts the whole system of the receipt, custody, and disbursement of public funds upon a basis that it would be difficult to improve upon.

**Status of Disbursing Officers.** At the present time disbursing officers of the national government are officers of the service to which they are attached, and thus subject to the direction of the heads of these services. The same condition probably obtains in other governments, where use is made of more than one disbursing

officer. This arrangement places the disbursing officer in an anomalous position. Claims may, and undoubtedly do, arise regarding whose justice disbursing officers may have doubt, and which, if paid may get them into trouble with General Accounting Office, but which the heads of the service or department desire to have paid. If they make payment, the items may be disallowed by the General Accounting Office. If payment is refused, they incur the displeasure of their administrative superior, which may jeopardize their position or advancement. There are, moreover, other claims which, while technically within the law and thus likely to pass scrutiny of the General Accounting Office, may lack equity, be excessive, or for other reasons give rise to questions regarding the propriety of their payment. As agents of the spending services, and subject to the authority of the heads of these services, the disbursing officers are not in a position to take a stand against the payment of such claims.

The foregoing raises the question as to whether the existing system, where the disbursing officers are officers of the services for which they made disbursements is a proper one, and should not be changed so as to make all disbursing subordinate officers of the Treasurer. This system would represent practically a reversion to the system first installed when the Treasury Department was created. That system provided that all disbursement should be made by the Treasurer of the United States. Under the system here suggested, all disbursements would be made by him or his deputies.

This system would have a number of advantages. The first is the one already mentioned, that the disbursing officer would be in a position where he could more effectively question the propriety of payments. Most if not all disbursements are made on the certificate of some administrative officer, that certificate certifying, when the payment for personal service is involved, that the person to be paid was duly employed, that his rate of compensation was as set forth in the certificate, and that the services were in fact rendered, and, in the case of supplies or materials purchased, that the payment conforms to an agreement legally entered into and the supplies or materials were in fact received and conformed as regards both quality and quantity to the purchase agreement. Opportunity manifestly exists for negligence or positive fraud in the execution of these certificates. The payroll may be padded, persons duly employed may not in fact render any service, materials purchased may not be properly inspected and may be short in quantity delivered or inferior in quality to that bargained for. While it may be no part of the duty of the disbursing officer to verify such certificates, he should at least be in a position where, without jeopardizing his position or chances of advancement, he could bring

the matter to the attention of the administrative officer superior to the one executing the certificate and, if need be, to his superior, the Treasurer and, through him, to the Comptroller General. The possibility that he could take such action would constitute a powerful check upon making contracts and certifying to their execution.

Secondly, in the case of the national government at least, if all or substantially all of the two thousand odd disbursing officers were brought under a common direction as field deputies of the Treasurer of the United States, it would be possible to effect substantial economies by having one disbursing officer do the work now done by a number of such officers. In many of the important cities of the United States are to be found the field stations of a large number of services, each of which has its special disbursing officer. In many, if not all, of these cities, a single disbursing officer could take over the disbursing work for all the services thus located. It is estimated that such a consolidation will permit of a substantial reduction in the force of employees now engaged in work of this kind and result in a direct economy running into many thousands of dollars.

This question is one which chiefly concerns the national government. The principle that is involved is, however, one that has general applicability.



## CHAPTER XXXV

### ACCOUNTING AND REPORTING: SOME GENERAL CONSIDERATIONS

Among the technical problems of public administration, none is more important than that of devising and operating a system of accounting and reporting through which full and accurate information may be available regarding the financial condition and operations of governmental bodies. Without such information it is impossible for those directly in charge of governmental operations, or those responsible for the general conduct of public affairs, to exercise proper control for the legislature intelligently to formulate fiscal policies and meet its responsibility of determining the grant of funds that shall be made to the several spending agencies; or for the general public effectively to discharge its function of holding both its legislative and executive representatives to rigid responsibility for the manner in which they discharge their duties.

**Dual Functions of Accounts.** In seeking to establish a proper accounting system there should be recognition of the fact that such a system is called upon to perform two distinct functions: the determination of the fidelity of all officers who handle the funds; and the furnishing of the information needed regarding financial condition and operations for policy determining and administrative purposes. The recognition of these two distinct functions is important for a number of reasons.

In the first place it is desirable to recognize that it is only within comparatively recent years that the importance of the function of furnishing information needed for the efficient direction and conduct of affairs has been fully appreciated or that the technical processes required in order that accounts may perform this function have been satisfactorily worked out. The development of this phase of accounting corresponds to what is known as the rise and progress of modern, or scientific, accountancy. It finds expression in the elaborate systems of accounting that have been devised by public utility commissions, the installation and use of which by the public utility corporations are made obligatory; in the voluntary adoption by other large corporations of equally comprehensive systems; in the development of cost keeping on a large scale; and in the

greater emphasis that is everywhere laid upon accounts as a means of determining the facts needed for general administrative and control purposes.

Secondly, the transference of the emphasis from the function of enforcing fidelity to that furnishing information has radically changed the whole problem of accounting and made its solution vastly more difficult than was the case when little regard, comparatively speaking, was placed on this consideration. Formerly, the problem of accounting could be handled more or less as a thing apart from the general problem of administration. Now accounting constitutes an essential element, if indeed, it is not the prime factor in that problem. By this is meant that it is now obligatory upon the general manager, and upon all persons having responsibility for the formulation of policies and the direction of affairs, to concern themselves with accounting matters and to understand thoroughly the accounting system at least of their own concern. This change can be best brought out by making the distinction now generally recognized between accountancy and bookkeeping. Accountancy is essentially a part of the problem of general administration. It consists of determining the character of the data that the directing body—the board of directors or the legislature—and the controlling executives require in order that they may efficiently perform their respective duties and the manner in which such data may be most effectively presented, analyzed, and compared with like data or results accomplished. It is a work that can be performed only by persons thoroughly familiar with the purposes, organization, and activities of the enterprise, and the decisions reached must have special reference to the special needs of such enterprise. Bookkeeping represents merely the technical operations required in order to give effect in practice to these determinations.

Thirdly, it is desirable to give separate and special attention to this function of accounts, since it is in respect to it that most systems of government accounts are at the present time most defective. It is hardly going too far to say that the system of accounts of almost all governments in this country, and the same is true of most governments in other countries, have been devised almost wholly without reference to their performing this most essential function. A study of them shows that in their establishment almost the only end sought was that of ensuring fidelity on the part of officers having the receipt, custody, and disbursement of public funds. Certainly, this is true of the accounting system of the national government. The system of accounts of that government calls for little more than two sets of accounts, the personal accounts that are kept with each officer having public moneys pass through his hands, and the appropriation accounts showing the operations in respect to each item of appropriations contained in

the permanent and annual appropriation acts. Were appropriations made in accordance with any carefully worked out scheme of itemization and classification of items, which would show expenditures according to any logical plan, much information might be secured from the latter system of accounts. Unfortunately, this is not the case. The result is that, only to a very slight extent, and in an accidental way, does the present system of accounts of the national government afford the financial data essential for an efficient conduct of public affairs.

**Distinction Between the Problems of Public and Private Accounting.** Another point that should be clearly understood at the outset of a study of the problem of public accounting is the fundamental difference that exists between it and private accounting. This is necessary, since the opinion is widely held that a system of government accounting should conform in all essential respects to that employed by the best managed private undertakings. That there are many features of private accounting that should be found in all governmental systems goes without saying. It can, it is believed, be shown, however, that the problem of financial administration as it confronts a government is so distinct from that of a private undertaking that any attempt to give to the former the same accounting system as is used by the latter, is bound to produce unsatisfactory results. Not a little damage to the efficient conduct of public affairs has resulted from the efforts that have been made by commercial accountants, who have been called in by governments to assist them in working out their accounting problems, to have these governments follow too closely commercial practices. Their failure has been due to their lack of appreciation of the essentially different character of government financing as contrasted with the undertakings with which they are familiar.

The first point of difference between the two problems lies in the fundamentally different purposes of the two enterprises. A private undertaking is conducted for the purpose of realizing an excess of income over outgo that will be available for the payment of interest on the capital invested, distribution in the forms of profits, or reinvestment. The latter method of utilization of earnings is but a temporary expedient. Normally, all private undertakings conducted for gain contemplate that money will be taken out of the enterprise. No such object is sought in a government.

A second characteristic of the private undertaking conducted for gain is that, in principle at least, all of its assets are of commercial value and may be realized upon as occasion may require. It is necessary, therefore, that the accounting system shall be so devised and operated as to furnish correct information regarding

this value. In most expanding concerns a portion, at least, of the earnings are usually added to capital instead of being distributed as profits. On the other hand, fixed capital is always undergoing depreciation as the result of use or obsolescence. The accounting system must be of a character to take account of these factors. In a government there is no thought that its affairs may ever be wound up and liquidated. Much of its property is not of a character that may ever be realized upon. Its possessions play little or no part in determining financial policy. These facts, as will later be shown, make the whole problem of listing and contrasting resources and obligations and assets and liabilities of a government essentially different from that presented in the case of a private enterprise.<sup>1</sup>

In the third place, there is a direct relationship between expenditures and revenues in a private undertaking that is almost wholly lacking in a government. In the private enterprise, revenues are produced by expenditures, and there is, thus, a direct incentive to increase expenditures so long as a proper relation between them and the return received can be maintained. In a government, if exception be made of the relatively few services having the character of revenue-producing enterprises, no such relationship exists. The revenues are obtained independently of the expenditures.

Finally, and in many respects, most important of all, a government, in contrast with a private enterprise, operates under a system of grants which constitute legal limitations which must be observed by all administrative officers. One of the most important functions of the accounting system of a government is to ensure that such legal limitations are in fact observed. A government must, therefore, provide for the keeping of so-called fund and appropriation accounts, which ordinarily find no place in a private enterprise for gain. This feature runs throughout and profoundly affects the whole system of government accounting.

It must be evident from this statement of the characteristic features of the operations of a government from the standpoint of finance, that the problem of organizing a system for the due recording and reporting of financial data is radically different from that of a private undertaking for gain. It is for this reason that the many excellent treatises on commercial accounting and reporting furnish so little aid to those having responsibility for the determination of the accounting and reporting systems of governments.<sup>2</sup>

<sup>1</sup>The charging of depreciation as an operating expense is not a practice of American governments. In a fully developed accounting system account should be taken of this factor even though it does not have the importance that it has in private enterprises.

<sup>2</sup>Budget accounting is becoming more common in commercial enterprises each year and with good results.

**Method of Approach in Organizing a System of Accounts and Reports.** It has been pointed out that a prime function of a system of accounts and reports is to produce the information needed for policy-determining, administrative, and general control purposes. This being so, it is evident that the starting point in devising such a system should be the clear determination of precisely the character of data desired, and the form in which such information should be presented. This means that the whole problem of organizing an accounting and reporting system for a government, or, for that matter, for any enterprise, should be approached from the report end. Having determined the character of financial statements that it is desirable to have, the next step consists of devising a system of accounts that will produce the data called for by these statements. This done, the final step is the formulation of a scheme of revenue and expenditure documents and of bookkeeping procedure that will enable the accounting operations to be expeditiously and efficiently performed. To state this in another way, the order of consideration should be the reverse of the operations actually performed in operating the system. The principle to be followed is that which should govern in the prosecution of a statistical inquiry; the information needed is first determined; next forms of tables are prepared by means of which this information will be presented and analyzed; and finally, schedules of inquiries and a procedure are worked out will produce the information thus called for.

The foregoing may seem to be but a statement of the obvious. In point of fact, however, the principle advocated is one that is rarely followed. Only in exceptional cases do those responsible for organizing either an accounting system or a statistical investigation determine clearly in advance the kind of information needed and the form in which it should be presented; and the failure to do so is responsible in no small degree for the failure of financial reports of government officers to furnish the information most urgently needed or in such form that it can easily be understood and its significance appreciated. Responsibility for this rests chiefly upon the general administrator and the operating heads of particular services. As a rule, they have left the whole matter of accounting to the special accounting officers. They have failed to realize that it is their responsibility to determine what financial data are needed by them and those to whom they are accountable, the responsibility of the technical accounting officers being merely to devise and operate the procedure necessary for securing and presenting this information. Only in exceptional cases do administrators realize the value of proper accounts and reports as an aid in the current control and direction of affairs under their jurisdiction and the responsibility that they are under of making a comprehensive and

clear report of the manner in which such affairs have been conducted by them.

**Parties Interested in the Financial Operations of Governments.** In seeking to determine the character of financial data that it is desirable to have regarding the financial operations of a government, and, particularly, the form in which this information should be presented, account must be taken of the different classes of persons who are interested in such data and the fact that their interest is not of the same character. It follows, therefore, that the system adopted shall be such as will meet the needs of these varying interests.

First of all may be mentioned the interest of the general public, constituting, as it were, the citizen-stockholders of the government corporation. Essential as is a proper accounting system to efficient administration of any government, it is of especial importance in a popular government. A basic principle of that type of government is that all public officials shall be held to a rigid accountability for the manner in which they perform their duties. Such an accountability is impossible unless the public is provided with full, precise, and accurate information regarding the manner in which affairs have been conducted. At the present time the greatest obstacle standing in the way of effective popular control of public servants is that the people are not furnished with information regarding financial operations and conditions that they should have. This is due partly to the fact that the accounting systems are not of a character to develop the information needed, and partly to the fact that such information as is, or may be, secured is not presented in a form or manner that can easily be comprehended by the ordinary citizen. From the purely political standpoint the modern movement for the improvement of the systems of accounting and reporting of our governments, national, state, municipal, and local is, thus, of great significance.

Second in order, is the interest of the legislature. As the board of directors having responsibility for the giving of orders in respect to what the government shall do, the grant of funds with which to do such work and the raising of funds for the meeting of the expenditure thereby entailed, it is imperative that it shall have information regarding the manner in which its orders have been carried out and the results of the provision that it has made for financing government operations. Without such information, it can neither exercise in an adequate manner its function of control over its agents nor intelligently make provision for future needs.

Thirdly, there is the interest of the officers of the government whose duty it is, not to direct actual operations, but to exercise

that supervision and control over those who have that duty as will ensure that they are performing their duties in compliance with law and in a satisfactory manner. These supervising officers are the chief executive, the director of the bureau of general administration, and the auditor or comptroller and the administrative heads who have general charge of, and responsibility for, the actual conduct of operations.

This enumeration of different parties interested in the financial operations of a government has been made, not merely as a matter of interest in itself, but because it serves to bring out a fact that is of great importance in planning an accounting and reporting system. This is, that the interests of these several parties are not of the same character; and the system, if it is properly to perform its function must be so devised that it will meet these varying needs. The manner in which these interests vary is generally in respect to the extent to which it is desirable to have the details of financial conditions and operations. Broadly speaking, the interest of the general public is only in fundamental conditions and results, the total of receipts classified by main sources of income, the total of expenditures classified by the main classes of activities occasioning them, and totals of government resources and obligations classified by certain main categories. The interest of the legislature goes somewhat further than this, since it needs data in such a detail as will enable it to determine the extent to which its plans and orders have been honestly and efficiently carried out and the results that have been achieved. Its interest goes to the totals of almost all accounts kept by government officers and the presentation of these totals in such a way that their relations to each other may be clearly seen. Finally, the interest of the controlling administrative officers and those in actual charge of operations extends to the details of the items entering into the accounts. It, furthermore, differs from that of the other parties in that it has to do with current operations from day to day, while that of the latter is concerned only with conditions at certain fixed dates, usually the end of the fiscal year and the total of operations during a fixed period, usually the financial year.

All of these varying interests must be taken into account in framing an accounting system and particularly in devising a system of reports that will meet the varying needs of these different classes. Emphasis has been laid upon this point, since in few respects are the systems of accounting and reporting of governments more defective than in their failure to present financial facts in the manner that will meet these several requirements.

**[Principle of Presentation of Financial Data.** These needs, which differ primarily in respect to the details of financial condition

and operations desired, can be all met by the adoption of the principle of presentation known as that of proceeding from the general to the particular. This method consists in presenting: first grand summaries of conditions and operations; next, intermediate summaries giving under a relatively few heads the items entering into the items shown in the grand summaries; these to be followed by other statements giving the items going to make up the totals which appear as items in the intermediate summaries until final statements or schedules are given showing the individual transactions, if it is desired to push the presentation to the degree of itemization. The series of tables as a whole will thus consist of general summaries and supporting schedules or statements. It is of the utmost importance that these statements should be so prepared that they are consistent with each other; that is, that the totals of detail statements will correspond to the items in the more summary tables to which they are supporting documents.

The foregoing considerations can be made clearer by a practical illustration. The first fact needed and that should be given regarding the revenues and expenditures of a government during a fiscal period is the total of each of these two items. Each of these totals should then be supported by statements showing the items entering into these totals, classified under a relatively few heads, showing the sources from which the revenues were obtained and the purposes for which the expenditures were made. Following these statements should be given further tables showing in progressively greater detail revenues and expenditures by sources and purposes.

The mere statements of this system and order of presentation must make it clear how well adapted it is to meeting all needs. It is, in fact, so clear that it is little short of remarkable that it is not more generally followed in practice. Examination of existing financial reports shows, however, that it is more often disregarded than followed. General summaries are often put at the end of reports or are buried by being interspersed through the reports. More unfortunate still, the several statements given are not integrated into a systematic scheme of presentation by making the more detailed statements directly supporting statements to the more general tables and having the latter contain specific reference to the detail tables giving the items entering into their more general totals. Finally, the figures given in the several tables often do not correspond to each other, and no adequate explanation is given of their failure to do so.

**Distinction Between Statistical and Accounting Statements.** Another important distinction to be made is that between technical accounting and detail statements on the one hand and statistical or general accounting statements on the other. The first



named are essential in determining fidelity on the part of all officers having the handling or custody of funds, and especially in enforcing fund and appropriation obligations. They have their essential place in any scheme of public accounting and reporting. Unfortunately, these statements are, for the most part, not of a character to produce the information desired by those interested in the more general phases of government operations. If the needs of this class are to be met, general statements having the form of statistical presentations rather than that of accounting statements strictly considered, are required.

In general it may be said that the failure on the part of the states to furnish proper information regarding their financial condition and operations is in respect to this second class of statements. Very generally the accounting officers of the states keep their accounts and render their reports in such form that there is full verification of the fidelity with which financial affairs are conducted. Only in exceptional instances, however, do they prepare and publish general and statistical statements showing clearly the information that is desired by those interested in general conditions and operations rather than the details of financial accountability.

This distinction between detail and technical accounting statements on the one hand and general and statistical statements on the other has the added importance that while it is practically impossible, even if it were desirable, to secure uniformity between the states in respect to the detail and technical accounting statements, there is no inherent or serious practical difficulty in securing uniformity in respect to the general and statistical statements. All that is required is an agreement by accounting officers upon a relatively few matters of classification, such as the manner in which receipts and expenditures shall be classified and the form of statements of assets and liabilities.

Finally, it is only by the use of statistical statements that conditions and operations over a period of years may be brought into comparison and the data presented analyzed from varying standpoints.

**Need for a Clear and Definite Terminology.** Another essential requisite for an adequate system of financial reports is that the data presented shall be clearly and readily understood. To secure this result it is necessary that the terms and expressions used in the titles for tables, the column headings, and the several items of classification shall be, so far as possible, those whose meanings are easily and generally understood; and that the same terms and expressions are always used with the same meanings. To make certain that there will be no misunderstanding, it is desirable that the precise meaning of each term be clearly set forth according to

a standard nomenclature. It cannot be safely assumed that those desiring to inform themselves regarding the finances of a government are acquainted with the technical details of the system of accounting and of the precise meaning of the terms and expressions employed.

In most reports now published the terminology employed is confusing and inconsistent, and little attempt at uniformity and standardization in the use of terms is attempted. Not only are there variations as between the reports of the different departments, but even in the financial reports proper there is lack of any clear and definite use of terms. Financial reports make use of such terms as "General Fund," "Trust Funds," "Special Funds," "Disbursing Officers' Credits," "Ordinary Receipts," "Ordinary Disbursements," "Net Balances," and "Balance free of current obligations," with no explanation of the precise meaning of these terms. In fact, some of the terms, such as "Trust Funds" and "Special Funds" are not used consistently, but are applied at one time to one group of funds and at another time to another group. Changes in terms are also often made in the reports from one year to another with no explanation as to the effect of such changes. Until this question of terminology is satisfactorily answered and consistently adhered to, financial reports can never furnish the information that it is their function to provide.

**Need for a Manual of Government Accounting and Reporting.** With the best of effort, it is, however, impossible to make all financial statements self-explanatory. It is not feasible in the statements themselves or in the accompanying text to define all terms employed, to describe the fund distinctions set up, or to describe the scope of particular items. Properly to meet the needs of the situation, all governments should prepare an accounting and reporting manual, in which should be set forth the system of accounting and reporting employed, a definition of all terms employed, a brief statement of each fund, and, generally, the information required in order that the financial statements of the government may be intelligently understood.

Such a manual would make it possible for those outside of the government offices to understand the statements issued and to make intelligent use of them. A document of this kind would also be invaluable in the actual conduct of financial administration, as furnishing the most effective means of instructing all officers and employees having to do with financial transactions in their duties and ensuring that all are applying the rules laid down in a uniform manner.<sup>3</sup>

<sup>3</sup>For an example of the general character that such a document should have, see Henry P. Seidemann, "Manual of Accounting and Reporting for the Operating Services of the National Government," Institute for Government Research, Studies in Administration, 1926.

**Need for a Standard Classification of Financial Data.** Accounts have to do with a great mass of items. The central problem of devising a proper system of accounts and reports is not one of bookkeeping technique or accounting procedure, but of determining the heads under which accounting data shall be recorded and relationship that these several heads shall have to each other. It is desirable to know, not merely what are the assets and liabilities of a government, but the character of these assets and liabilities; not merely the total of receipts, but the sources from which these receipts were derived; not merely the total expenditures, but the purposes for which these expenditures were made. In most cases it is desirable to have these items presented from a number of different standpoints. This information will only be available when the whole problem of listing and classifying financial data is carefully worked out in advance and the accounting system made one that will produce this information. Prime responsibility for the defective character of most existing systems of government accounting and reporting is due to the failure on the part of governments properly to work out their problems of classification. Often different branches or services of the same government list and classify their receipts or expenditures in quite different ways and even where uniformity exists the scheme employed is not one that produces the information needed. The fact that the political subdivisions within a state and the states themselves use different methods of classifying and presenting financial data is primarily responsible for the difficulty that exists in comparing the operations of one government with another. Though the accounting and reporting systems of most of our governments are radically defective from this standpoint, there is now, fortunately, substantial agreement on the part of students of public administration in respect to the nature of the classifications that should be employed. Our subsequent consideration of the character of information that it is desirable to have regarding the financial condition and operations of governments will have to do largely with this matter.

**Need for an Annual Financial Report.** That an accounting and reporting system of a government should provide for the preparation and publication of an annual report, in which should be set forth all the facts that it is desirable to have regarding the government's financial condition and operations, would seem to be so self-evident that mention of it would be superfluous. It is a remarkable fact, however, that this elementary requirement is met by few of our governments in any satisfactory manner. The various financial officers, and particularly the treasurer and the comptroller or auditor, issue annual reports. These reports are usually devoted wholly to making known financial facts from the fidelity standpoint.

Only rarely do they attempt anything in the way of an analysis of data for the purpose of bringing out important facts. Advantageous use of these reports is restricted not only by this fact but by the further fact that the several reports being prepared from different standpoints are often out of adjustment and confusion results in attempts to use them.

This situation is strikingly illustrated by the system of financial reports of the national government. It may, almost be said that that government makes no general financial report. The nearest approach to such a report is the set of tables contained in the annual report of the Secretary of the Treasury. These statements are buried, as it were, in the general administrative report of the Secretary. They appear in the middle of the volume. They are not even made the subject of special chapter, but are run into the general text almost as an incidental feature of the report. It is not a matter of widespread knowledge that they are to be found in that report and the report itself has, at best, but a limited circulation. These statements, moreover, are of the most general character. If one desires to push his inquiries further, he has to turn to other reports: such as, the "Annual Report of the Treasurer of the United States," the "Combined Statement of Receipts and Disbursements, Balances, etc., of the United States during the Fiscal Year," the annual reports of the Commissioner of Internal Revenue and other administrative officers, the "Annual Budget," etc. These several reports have, for the most part, been independently prepared, no adequate attempt has been made to bring them into harmony with each other, through the use of the same terminology, classification, or otherwise. The searcher after facts finds it difficult to make use of them as mutually supporting documents. The lack of any general and comprehensive financial report is met in part by the statements contained in Part I of the annual budget. These statements, however, do not emanate from an accounting officer. Properly, they, with other statements showing more fully financial condition and operations, should form the subject matter of an official financial report and be merely reproduced by the Bureau of the Budget in preparing the budget document. One of the reforms required in the accounting and reporting system of the national government is the preparation and publication of a separate report, to be known as the annual financial report of the government, which will constitute the one document to which all persons interested in the financial condition and operations of the government will refer for information and which in addition to the formal accounting statements, will contain, statistical tables analyzing the data and presenting them from comparative standpoints. This document, as will later appear, should emanate from the General Accounting Office.

Much the same condition of affairs that has been described in respect to the national government is to be found in the case of the states and to a less extent of the cities. The writer is familiar with but one annual report of a governmental body in the United States that fully meets the requirements of a general annual financial report such as has been described. This is the Annual Report of the Auditor of Hawaii. The entire financial system of that territory has recently been thoroughly reorganized as a feature of the adoption by it of a modern budget system, with the result that the territory now has probably the best budget and accounting system of any state or territory in the Union. One of the features of this system is the preparation and publication of the report, to which reference has been made.<sup>4</sup>

**The Adoption of a Fiscal Year.** In all systems of finance, public or private, it is essential that a fixed interval of time shall be adopted as one to which all financial transactions shall be made to relate. This is necessary in order that periodically these operations may be reviewed and their significance made known. Especially is it important that at fixed dates the financial condition of the undertaking, as revealed by a comparison of its resources and obligations, shall be determined. Unless this be done, and the financial experience of the period just terminated compared with that of preceding periods, it is impossible intelligently to plan for the future. In almost all enterprises the period adopted is that of a year, and this is the invariable practice of all governments.<sup>5</sup> Though there is little of a variation in respect to the length of the accounting period, a wide difference of practice obtains in the case of both public and private enterprises as to the dates on which such annual period shall begin and terminate.

This question of the terminal dates of the fiscal or financial year, as such period is usually designated, is a matter of considerable importance in the case of governments. The chief desideratum is that the beginning and ending of a fiscal year shall be so adjusted that the three operations of estimating future needs, making provision for them through the enactment of revenue measures and

<sup>4</sup>The devising and installation of this system was effected by a special Commission on Public Accountancy, of which Mr. Henry P. Seidemann, of the Institute for Government Research, was the Technical Director.

<sup>5</sup>This is true even in the case of the individual states of the American Union, notwithstanding the fact that the great majority of them provide for a meeting of their legislatures only every other year. Though appropriations are thus made by these states for two or more years in advance, provision is in all cases made for an annual accounting of all revenue and expenditure transactions.

appropriation acts, and the taking of action upon such measures, shall be brought as close together as possible. At best it is a difficult matter to accurately forecast prospective revenues and future expenditure needs. The longer that this is done before the period to be financed being, the less likely it is that it will be done accurately. In fixing the fiscal year, two factors must be considered in their relation to each other: (1) The time that is required to close the books for a period, determine the results of such period of such period, set forth conditions obtaining at the end, and estimate future needs; and (2) the date upon which it is possible for the legislature to act upon such data and authorize action for the period to ensue. There is, thus, an intimate relation between the date of the convening of the legislature and that of the beginning and end of the fiscal year.

In general, it may be said that governments have adopted two distinct methods in seeking to harmonize the conflicting considerations that are here involved. The first method is that of England, France, and Canada, which, in their effort to bring close together the dates of estimating future needs, providing therefor, and proceeding under such authorization, have adopted systems under which definite provision is not made for a fiscal year until after that period has begun. The other is that of the United States, which calls definite action before beginning of the period to be financed.

In England the fiscal year begins on April first. Parliament usually convenes in February and the estimates are submitted during that month, having been prepared during the preceding two or three months and put into final shape by the Treasury in January. It is clearly impossible for these estimates to be adequately considered and passed upon during the few weeks before the opening of the new fiscal year. The practice, therefore, is, before April first, to make what are called "votes on account." These are grouped in an act known as the Consolidated Fund (No. 1) Act, which makes provision for carrying on existing civil and revenue services for a part of the year, say, three or six months. For the support of the army and navy, large sums are also similarly voted, but in a somewhat different form. Subsequently, and after the fiscal year to be provided for has begun, a final appropriation act is passed, which has a retroactive effect, since it fixes the sums to be expended under the several heads enumerated during the entire year.

The "votes on account" relate, of course, to appropriations. With reference to revenue bills, it is the practice in England to put tax measures into effect as soon as they are proposed in Parliament, that is, before they are actually enacted into law. This is done in order that their provision may not be avoided by persons taking

immediate action for their own benefit but to the detriment of the government's revenue, in anticipation of the changes in the law which are to come; as, for example, the importation in large amounts of a commodity, the import duty upon which is to be increased. Should the measure not be enacted, the amounts collected upon it would be refunded. Formerly, there was no legal warrant for this practice. A decision of the court<sup>6</sup> having declared explicitly the illegality of practice, an act of Parliament was secured in 1913 (3 Geo. V, c. 3) giving express legal authority with certain limitations to the practice.

In France somewhat the same result as that secured in England by "votes on account" is obtained by the employment of what are called *douzièmes provisoires*. These have been defined as "an authorization to collect taxes and pay public expenditures over a certain number of months, in accordance with a temporary allotment."<sup>7</sup>

Though termed temporary, these *douzièmes provisoires* have, in fact, become the ordinary and usual practice, and Stourm is of the opinion that, because of their value in enabling the enactment of the budget to be made at the latest possible date, they should be formally sanctioned and thus regularized. It will be observed that the practice, both in England and France, is to make it possible to reach the final determination regarding the government's financial program during the course of the very year to which it is to be applied. The French financial system is, however, defective in that the estimates themselves are prepared by the executive some fourteen or fifteen months before the beginning of the year to which they apply. If, as in England, these estimates were adopted by the legislature practically without change, this would be a much more serious matter than it is in fact, since the French Chambers freely exercise their own judgment upon the financial proposals made to them by the executive. It may also be added that though prepared in either October or November, the estimates are not sent to Parliament until January or February of the next year, and sometimes not until June or even July.<sup>8</sup>

In Canada the end attained in England by "votes on account" and in France by *douzièmes provisoires* is reached by the enactment before April first, when the fiscal year begins, or very soon thereafter, of fractional parts of the estimates as submitted by the executive, the remainders being voted later on and at greater leisure and with such changes as may then be seen to be desirable.

<sup>6</sup> Bowles v. Bank of England.

<sup>7</sup> Rene Stourm, *The Budget*. English translation published by the Institute for Government Research, p. 326.

<sup>8</sup> *Ibid.*, 198 et seq.

In the United States, Congress convenes in regular session the first Monday in December. This is provided in the Constitution itself, though authority is given to Congress to appoint by law a different date. Until 1842, the fiscal year corresponded to the calendar year. Due to the great difficulty in considering the estimates and in passing the necessary appropriation acts in the few days intervening between the assembling of Congress and the beginning of the new year, Congress, at the earnest solicitation of the Secretary of the Treasury, passed an act on August 26, 1842, changing the date of the fiscal year to July 1—June 30. Under provisions of the Budget and Accounting Act, 1921, the spending services must submit their estimates of appropriations to the Bureau of the Budget not later than September 15 of each year, and the President must submit his budget to Congress upon its assembling on the first Monday in December.

It will be seen that under this system the fiscal year terminates June 30, estimates of expenditures must be formulated by the services by September 15, Congress must receive them the first week in December, and final action must nominally be had upon them by June 30. In general, this must be deemed to be a fairly satisfactory arrangement. Two and a half months would not seem to be too long a time in which to close the books and state the accounts for the last completed fiscal year, and, on the basis of the information thus furnished and that available regarding appropriations for the year in progress, to formulate estimates for the year to ensue. Seven months, however, would appear to be more time than is required for the proper consideration of these estimates by Congress. It should be borne in mind, however, that every other year the session of the Congress convening in December comes to an end on March.

4. Experience has shown that on these years great difficulty has been experienced in securing action upon all appropriation measures within the ninety days available. The situation would be much improved if favourable action were had upon the proposal to change the dates of the terms of Senators and Representatives so as to permit of each newly-elected Congress convening in the January following the November in which it was elected, and consequent abolition of the distinction between long and short Congresses. If this were done, not only would adequate time be offered each year for the consideration by Congress of the estimates, but an additional month would be available for the work of formulating the estimates. Under existing conditions the American plan must, it is believed, be held to be superior to that of Great Britain and the other countries whose systems call for provisional appropriations.

Occasionally it happens that, due to differences between the two Houses of Congress or between Congress and the President, all



of the appropriation bills for the support of the government are not passed prior to July 1. This situation, as has been pointed out, is met by Congress passing joint resolutions extending existing appropriations for a month and, if, at the expiration of that period, action has still not been taken, by the passage of another resolution of the same character.

## CHAPTER XXXVI

### BASIC CHARACTER OF ACCOUNTING SYSTEM

**Accrual or Cash Accounting System.** Analysis of the nature of financial transactions shows that most, if not all, of them comprehend two distinct steps or operations: (1) The taking of the actions by which the right to a receipt or the obligation to make a payment is established, or, to use the technical expression, accrues; and (2) that by which this right or obligation is realized upon or discharged, or, as the expression is, liquidated. It is evident that the real assets of an undertaking are constantly being increased by the accrual of interest due on moneys loaned and of payments due it on account of work performed or goods furnished and not paid for in cash. In like manner, liabilities are constantly being incurred through the accruing of interest on moneys borrowed, the purchase of supplies on credit, etc. These accrued assets and liabilities are ultimately liquidated by the transfer of cash.

On the basis of this distinction between the accrual and the liquidation of assets and liabilities, two systems of accounting are possible. The one disregards all operations of the first kind and seeks to record only those in which an actual transfer of cash has taken place. Such a system is known as one of cash accounting. It affords no information regarding the accrual of assets and liabilities, but gives data regarding settlement or liquidation. The second system seeks to give information regarding both accrual and liquidation transactions. Under it, appropriate entry is made on the books of all actions having for their result an undertaking which has the right to an asset or placing it under an obligation to pay, that is, of subjecting it to a liability, and also all actions by which these rights are realized upon or the liability discharged. This system, on account of its characteristic feature of recording accruals is known as the accrual system of accounting.

It is hardly necessary to point out the relative merits of these two systems. The mere statement of their differences is sufficient to show the superiority of the latter. It must be apparent that the really significant transactions are those by which an undertaking is given the right to the receipt of payment or is placed under the obligation to make one. Thus, for example, it is clear that when a tax is levied for a given year the amount of the levy constitutes an asset of the treasury almost as definitely as though it were cash in the treasury. Subsequent transactions representing the

collection of this tax constitute merely the conversion of this asset from one form to another; that, namely, from moneys due to cash. In like manner immediately upon the government entering into a contract calling for the payment of money, the amount that it thus obligates itself to pay constitutes a liability and subsequent transactions representing the payment of this obligation constitute merely a liquidation of this obligation, which is counterbalanced by a diminution of cash. To a very considerable extent the cash in the treasury of a government represents merely the government's working bank balance. Information regarding it furnishes no more information regarding the financial condition of the government than does a man's bank balance regarding how much he is worth. As one of our ablest students of public finance has expressed it:<sup>1</sup>

Should we turn our attention from public accounting to the best co-operation accounting one will discover that "earnings and expenses" have almost universally supplanted the older bookkeeping phrases of "receipts and expenditures." The idea seems to be that liabilities should be balanced against assets and not payments out against payments in. The evil of the cash system is that it cannot make a true exhibit of the condition of affairs, because it confines the record to accomplished financial events. It presents no guarantee that a company is solvent even though it shows thousands as cash on hand, for how can one know that obligations that ought to be charged against this balance have been paid? The only way of making an intelligent statement, by which is meant a statement that shows upon its face the standing of the business to which it pertains, is to accept as the basis of the statement assets as accrued and liabilities as accrued at the date of the report.

Every modern business enterprise recognizes the importance of the considerations that have been pointed out and makes use of the accrual method of accounting almost as a matter of course. It is exceptional, however, for a government to do so. The practice on the part of most American governments, and to a large extent foreign governments as well, is to keep their accounts on the cash basis, with the result that their accounts show only a record of moneys actually received or paid out.

In view of the utter inadequacy of the cash system to furnish a true picture of financial conditions, one may well ask how it is that governments generally have accepted this system instead of that of accruals, with its manifest advantages? The answer to

<sup>1</sup>H. C. Adams, *The Science of Finance*, p. 206.

this question is found a number of facts. The first is the universal conservatism of governments in adopting new principles and practices. It must be remembered that it is only within comparatively recent years that the merits of the accrual system have been appreciated by private industry and the difficult problems involved in its successful application worked out. The accounting system of governments were, for the most part, devised at a time when the cash system was practically the only one employed. It is not remarkable, therefore, that the governments have not gone over to the new system until the merits and practicability of that system were fully established. That position may now be said to have been reached. This explanation, therefore, should no longer have validity. Every government whose system of accounts is on a cash basis should at least make a thorough study of the question to determine whether time has not arrived when it should adopt the new system of accruals, the superiority of which in the case of all private undertakings is now so well established.

A second explanation of the adherence of governments to the cash system is the greater simplicity that is claimed for that system as contrasted with the accrual system. That there is considerable justification for this claim, can hardly be doubted. It must be apparent that a system that takes account only of transactions involving the actual transfer of cash is a simpler one than one which requires that an accounting record shall be made of all transactions by which an obligation is set up in favour of or against the government. This is a factor, however, the importance of which can easily be exaggerated. The accrual system is certainly one which it is more difficult to work out and instal than is the cash system. Once devised and installed, there is no reason, however, why it cannot be operated with as great effectiveness as a cash system and without too much additional labour. The factor of increased complexity, in a word, is one that affects the problem devising and introducing the system rather than its subsequent operation.

Still a third reason that is given for the adherence of governments to the cash system is that the operations of a government are so different from those of private undertakings that the accrual system is not applicable to them. It is, it is believed, hard to justify this claim. The accrual system has been found to be both desirable and feasible in the case of all private undertakings, no matter how devious their character. It is doubtful whether the operations of a government differ more from those of private undertakings than do private undertakings among themselves. Professor Adams, who examined this question with unusual care, took the position

that there is nothing in the peculiar character of government activities that renders the accrual system inapplicable to them.<sup>2</sup>

Without expressing a positive opinion upon this point, it is difficult to say why government accounting cannot be carried on successfully on the basis of accruals. There is nothing in the nature of public expenditures which render this more difficult for the government than for a railway corporation. The income of a government arises from taxes or from services. Taxes are an asset of the State when legally assessed, while the earnings from a public service are in all respects like the earnings of a private corporation. There is no more difficulty in reporting customs duties accrued from day to day than reporting moneys received from day to day. Internal revenue, also, being an excise duty, grows from day to day with the process of manufacture, and reports might be made by internal revenue officers at sufficiently frequent intervals to enable the treasurer to maintain a current oversight over public assets from this source. The assessment or apportionment of direct or property taxes, it is true, occurs but once a year, but a clearer idea of the business of levying and collecting taxes could be obtained were this amount set up on the books of the State as an asset (deficiencies in collection being accounted for as a corporation accounts for bad debts) than by the present method of taking into consideration nothing but amounts actually paid. There is no difficulty in applying the theory of accruals to public income.

The expenditures of the State, also, permit of their being charged when accrued instead of deferring the charge until the payment is actually made. The payroll of the State is like the payroll of a corporation and represents a constantly accruing obligation. It is an "operating expense." Interest upon a debt accrues with mathematical precision, and may be taken up on the books without reference to the date of maturity or the time of payment. The obligations arising from contracts are perhaps a little more difficult to handle, but the same problem is handled successfully by corporation accountants. There is nothing in the nature of public income or of public expenditures to prevent the adjustment of public accounting to the theory of accruals.

Of the correctness of this position, there can be no doubt. Not only is it endorsed by all those who have made public accounting a special study, but the entire workability of the system.

<sup>2</sup>*Ibid.*, pp. 207-08.

has been demonstrated by the few governments which have courageously remodelled their accounting systems so as to make them conform to the principles of the accrued system. The general adoption of the accrual system, thus, constitutes one of the great reforms urgently needed in public accounting. Until it is adopted, government accounting cannot be put upon a thoroughly satisfactory basis.

**The Fiscal Year in Relation to Accounts.** Before leaving the subject it is of interest to point out a difficulty that is encountered by governments in attempting to operate a cash accounting system and the variations in the manner in which this difficulty is met by Great Britain, France, and the United States. This difficulty has to do with the question as to whether the accounting system shall seek to record cash transactions in relation to the year in which they take place or the year to which they relate. Appropriations are for the most part made for meeting the expenditures of a given year. In practice many payments have to be made in one year for the purpose of liquidating obligations incurred in and, therefore, pertaining to prior years. In like manner taxes levied and payable in one year are to a considerable extent only collected in subsequent years. If the amounts are kept on the basis of the year in which they are made, it is impracticable to make accurate comparisons between the operations of different fiscal years. If they are kept on the basis of the year to which they pertain, separate sets of accounts must be kept with the several fiscal years, an operation involving much additional work and tending to confuse the situation that exists at any one time.

The British accounting system rests squarely upon the basis of recording transactions according to the year in which they take place. No effort is made to show receipts and expenditures according to the years to which they relate. Under this system all unexpended balances of appropriations lapse at the end of the fiscal year for which they were made, and all expenditures that must be made for meeting obligations incurred during that year and remaining unliquidated at the end of the year must be made from appropriations made for the ensuing fiscal year. As a writer on the British financial system expresses it:<sup>3</sup>

The moment the 31st of March (the close of the fiscal year) ends the balance is struck on both sides and credit is taken only for the actual money received within the twelve months, while all authority to spend money for any purpose, except the Consolidated Fund, immediately

<sup>3</sup>A.J. Wilson, *The National Budget*, p. 147.

lapses. If an extra credit has been given and, as may often happen, has been all spent within the financial year, the Government has no power to continue to draw upon it. Parliament must renew it before another penny can be used, and the same is the case with ordinary unexpended balances. By this vigorous proviso all concealment of debt and confusion of amount of income and expenditure are avoided. Each year tells its own tale and each year the Government in power has anew to submit the estimates *de novo* to Parliament.

In France the attempt is made to record transactions according to the year to which they relate. There, a distinction is made between what is termed the *exercice financiere*, that is year to which financial transactions relate, and *gestion annuelle*, the year in which financial transactions take place. Under this system, it is possible for France to state her accounts in two ways, according to the year in which they take place and according to the year to which they relate.

From the purely theoretical standpoint the French system is probably superior to the British. Under the French system the financial autonomy, so to speak, of each year is preserved and accounting data are brought into direct adjustment with appropriation items and tax levies. The system preserves the connection between the responsibility for authorizing of action, the taking of action, and the final settlement of the obligations incurred as the result of such action. It becomes possible to determine with greater accuracy the results of policies and more definitely to locate and fix responsibilities. Under the British system, the accounts, combining as they do the transactions pertaining to a number of years, fail to give accurate information regarding the results of particular tax levies or of the operation under particular authorizations to spend.

The theoretical advantages of the French system are in general accepted by British writers. Against them, however, are urged certain practical disadvantages, that it is claimed, more than offset them and make the British system one that, judged by its practical results, is the superior of the two. These practical disadvantages, it is stated, are: that the French system is much more complicated; that it leads to delay in securing accounting data; and that the information furnished by it, interesting though it may be, is not of any practical value as an aid to the formulation of future financial policies, or at least is not of sufficient value to warrant the trouble and expense involved in securing it.<sup>4</sup>

<sup>4</sup>This condition could be remedied, however, if France accrued its receivables and payables at the close of each fiscal year after the manner of private corporations. If the amounts so set up are more or less than the amounts subsequently received the adjustment would be made in the surplus account.

These practical objections are undoubtedly sound. That the French system is a more complicated one than the British must be evident. It requires that the books for a fiscal year shall be kept open until the last transaction pertaining to it has been finally adjusted and settled. As a consequence the government must keep running concurrently a large number of different sets of books and take care to distinguish the year to which each transaction relates. In contrast with this, the British system requires but a single set of books, which are closed immediately upon the termination of the year. The really vital objection that may be urged against the French system is, however, that, judged from the practical standpoint, it does not furnish the information needed by the legislature in framing its policies for future action. Complete and accurate information regarding the operation pertaining to a year is only available when the books for the year are finally closed. This will normally not occur until a number of years after the end of the year to which the accounts relate. In the meantime, the government has had to consider its financial condition and to formulate its financial policies a number of times. In a word, the government has had to proceed without this information, with the result that the latter can have but little more than historical interest. As the writer already quoted says:<sup>6</sup>

Under arrangements of this kind (that is, the French system of accounting) the greatest confusion may easily prevail, and it is always three or four years before the nation can know what the definitive expenditure of a given year is. Indeed, it is quite possible to hide that important fact from the people altogether. . . . Even in France, with its carefully chosen budget committees, the true state of the national balance sheet is often hard to discover. Arrears of taxes in one year overlap with those of other years, credits old jostle credits new, and amid the confusion the truth is smothered.

In another place, in discussing the same matter, he says:

Everyone who knows anything of the difficulty of explaining at all effectually even simple matters of accounts will know that such elaborate figures as these [*i. e.*, the French figures] can never be understood by many persons, and that even among those persons there are sure to be many wranglers about them. . . . The political effect is that the French nation can form no opinion about its finances. It is told too much, and in too abstract a form and so knows nothing. The English chancellor gives every year a rough popular account of the general state of things and this can

<sup>6</sup>*Ibid.*, p. 148. Quoted by H. C. Adams, *The Science of Finance*, p. 505.



be broadly criticized and dealt with. And it is only so that a free nation can judge of its finances. If it attempts precision it ensures failure.<sup>6</sup>

The American system conforms in principle to the British system in that accounts are kept on the basis of each transaction during the year and no attempt is made to make a final showing of the accounts of fiscal years on the basis of transactions pertaining to those years. This system, however, lacks the simplicity and consistency of the British system, due to the varying way in which appropriations are made from the standpoint of the duration of time during which they are available and the treatment that is accorded to unexpended balances. In England all appropriations are practically what are known in the United States as fiscal year appropriations, in that they are available only for meeting the obligations of a single designated fiscal year. This results from, or rather is reaffirmed by, the provision of law that immediately upon the close of a year all outstanding credits, or what are here known as outstanding balances of appropriations, lapse. The result is that each year starts with a clean slate in so far as encumbrances on the treasury balance are concerned. In the United States, appropriations are made with all sorts of limitations upon them in respect to the duration of time during which they are available. Some, known as fiscal year appropriations, relate only to the year specified; others run for a series of years; while still others, known as no-fiscal year appropriations are indeterminate as regards the duration of time during which they may be drawn against. Furthermore, in respect to those which are valid only for a particular fiscal year, the law provides that the balances unexpended during the year shall remain available for the payment of obligations incurred during the year for an additional period of two years. The books must, thus, be kept open for at least two years after the close of the year to which they relate. Notwithstanding this, the Treasurer of the United States, at the close of each fiscal year, prepares statements analogous to those of Great Britain, showing total treasury receipts and issues by main categories during the year and the condition of the treasury at the end of the year.

Of the three systems described, that of Great Britain is the one to be preferred so long as the cash accounting system is followed. The system of the United States would be much simplified and improved if all appropriations were for a single fiscal year and lapsed at the end of the year, on the British model.

In conclusion, it should be noted that under the accrual accounting system the distinction between the year in which operations

<sup>6</sup>Journal of the Statistical Society, 1867, Vol. XXX, p. 171. Quoted by H. C. Adams, op. cit., p. 204.

take place and the year to which they relate would wholly disappear, as the accounting basis would be the incurring of obligations rather than their liquidation.

**Revenue and Appropriation Accounts.** One of the most distinctive features of government financing, in contrast with that of private enterprises for gain, is that definite provision is made annually or biennially in advance, through the passage of revenue and appropriation acts, for meeting financial needs. These acts are not only authorizations and directions to collect and expend funds but limitations as well. It is imperative, therefore, that accounts shall be set up with each source of revenue, each class of funds, and each head under which appropriations are made, to the end that assurance may be had that the limitations imposed are observed. From the fidelity or control standpoint, these accounts are the most important ones that are kept by a government. It is in respect to these accounts that the advantages of the accrual over the cash accounting system are most evident. Under the prevailing cash system, these accounts record only collections and disbursements actually made. Under the accrual system, record is first made of the total estimate of receipts under each item of revenue and total expenditures authorized under each appropriation head. Entry is then made of collections as effected and of expenditures first as authorized and then as liquidated by payment of cash. Under this system it is possible at any time to see the extent to which expectations in respect to revenue are being realized and appropriations are being encumbered as well as finally drawn upon through payments in cash. Through this information those in superior authority can effectively supervise the administration of financial affairs with a view to the prevention of the incurring of a deficit when revenue receipts do not equal the estimates upon which the expenditure program as authorized was based.

**Proprietary Accounts.** The revenue and appropriation accounts and the fund accounts described in the next succeeding chapter have for their major purpose to ensure fidelity on the part of all officers having the collection, custody, and disbursement of funds, and to ensure rigid adherence to all directions and limitations to levy and collect income and to make expenditures. They are control accounts, using that term in a general rather than a special or technical sense. They have to do primarily with matters of internal administration. While these accounts fully serve their purpose, they do not furnish all the information needed by those directly charged with matters of administration and still less by those external to the actual administration of affairs, the governor the legislature, and the public. Such additional information can only be secured by the maintenance of supplementary accounts

known as "proprietary accounts," which can be produced almost wholly as a by-product of the fund and appropriation accounts.

Proprietary accounts are, as their name implies, accounts having for their purpose to furnish information regarding the government as a proprietor or institution and of its several subdivisions, such as departments, bureaus, institutions, etc., their assets and liabilities, their income and expenditures, so classified as to bring out the significant facts regarding their condition and operations. In a general way, as has been indicated, the fund, revenue, and appropriation accounts are maintained primarily as instruments of internal administration, while the proprietary accounts are maintained not only to give to administrators additional information but also to meet the needs of those external to or outside the administration. To a large extent the data needed for this latter purpose can only be secured from accounts of this character.

**Supplementary Detail Accounts.** As will subsequently appear, it is desirable to have information regarding a government's assets and liabilities, its receipts and expenditures, viewed from a number of different standpoints; the nature of the assets and liabilities, whether they are current or fixed; receipts classified not only according to sources from which derived but also according to the organization units responsible for them; expenditures distinguished according to their character; that is, whether for current expense, fixed charges or capital outlay, organization units, activities performed, and the like. This information can only be secured by maintaining the accounts in such a manner that the transactions are recorded in a way that will reveal these distinctions. The precise character of these accounts will be more fully shown in the chapters that follow, having for their purpose to make known in detail the nature of the information that should be rendered available regarding the financial condition and operations of governments.

## CHAPTER XXXVII

### FUND DISTINCTIONS

Were all government receipts revenues in the sense that they were freely available for meeting government expenditures and were all these receipts covered into a single pot or general fund, from which all payments to meet obligations would be made, the work of keeping the accounts and rendering the reports of a government would be vastly simplified. Unfortunately, no such condition obtains in our governments. As will appear, most governments have the handling of important sums which are of a trust character, and even in respect to public funds, properly speaking, a considerable portion is not freely available but, as a matter of policy, is earmarked for particular purposes. The obligations and limitations that are thus set up can only be met by handling each category of receipts and expenditures as a separate accounting proposition. The device by which this is done is that known as treating each such category as a separate "fund." Each such fund has, as it were, its own accounting personality, its own receipts and disbursements, its own resources and obligations.

**Classification of Funds.** These separate funds are, in the case of our national and state governments and to a greater extent in the governments of our cities and other political subdivisions, numerous and extremely varied in character. If the confusion that is introduced by them into government accounting and reporting is to be obviated, it is imperative that these funds shall be classified in some way so as to permit of the preparation of consolidated statements that will bring out the essential facts regarding them and their relation to the government finances as a whole. A great deal of effort has been expended by students of public accounting in the attempt to work out a scheme of classification of funds that will be generally acceptable. The following suggested scheme is one that will at least serve to bring out the more important classes of funds, distinction between which must be made if the financial operations of a government are to be properly carried on and informative statements of financial condition and operation are to be prepared:

1. Public Funds
  1. General Fund
  2. Special Revenue and Expense Funds

3. Working Capital or Revolving Funds
4. Loan Funds
5. Sinking Funds
6. Endowment Funds
7. Public Trust Funds
8. Supense Funds
2. Private Trust Funds

**Public Funds and Private Trust Funds.** In this classification the primary distinction is that between public funds and private trust funds. Most governments have paid to them sums of money, the ownership of which is vested in private persons, corporations, or other public bodies. Examples of such payments are deposits in the postal savings bank, deposits by contractors to guarantee fulfilment by them of their obligations, and the like. It needs no argument to demonstrate that all money received in this way, though it may be physically commingled with the money belonging to the government, should in the accounts be carefully segregated to the end that an accounting for it may be had and that it will not appear as a part of the government's income, properly speaking. This is secured by distinguishing clearly between funds that are of a public and those that are of a private trust character.

**General Fund.** The general fund is the first and much the most important of public funds. To it are credited all receipts which are not by law required to be credited to other funds. Though derived from a great variety of sources, all these receipts have the common characteristic that they are subject to no restriction in respect to their expenditure. They thus constitute the "general fund" that is generally available for government expenditure. It is this fact which gives significance to the expression employed in most general appropriation acts that "there is hereby appropriated out of any moneys in the treasury not otherwise appropriated, the sum of, . . . etc." The balance standing to the credit of this fund on any date and the total receipts into and disbursements from it, constitute by far the most important data in determining the condition of the treasury from the standpoint of cash available for meeting future expenditures and the results of the financial operations of the government in the past.

**Special Revenue and Expense Funds.** In contrast with the general fund, special revenue and expense funds comprise the large number of funds or accounts the resources of which are not generally available for meeting the expenditures of the government but must be devoted to meeting certain specified expenditures or the

performance of certain specified activities. They are designated special revenue and expense funds, since they get their increments from specially designated items of revenue, which revenue can only be used for specially designated items of expense. It is evident that special revenue and expense funds may be very numerous, according as the policy is pursued of earmarking certain items of revenue for certain specified purposes. Many states provide for the levy and collection of so-called "mill taxes," the proceeds of which may only be used in carrying on certain of the state's activities, such, for example, as the support of the state university, the maintenance of the public school system, the construction and maintenance of roads, etc. The receipts and expenditures of each of these special taxes must be handled as a special fund. Examples of other special revenue and expense funds are where governments provide that the revenue derived by certain services as the result of their operations shall be used by such services to meet their expenditures. The Reclamation Fund and the Forestry Fund of the national government are funds of this character.

**Working Capital or Revolving Funds.** Throughout the present work emphasis has been laid upon the desirability that all revenue-producing enterprises carried on by the government shall be erected into what are, in effect, subsidiary corporations in the sense that each, as in the case of the subsidiary corporations known as municipal corporations, will have its own administrative and financial system. By a "revenue-producing enterprise" is meant a service having for its purpose or result to produce a product or to render a service for which a charge will be made proportionate to the value of the product or service furnished. Generally speaking, the policy of governments in respect to such services is that they shall, as far as circumstances permit, be so conducted as to be self-supporting. As has been pointed out, a feature which marks these services off from the ordinary administrative services of the government and is of great significance from the standpoint of financial administration, is the direct relations that exist or should exist between their receipts and expenditures. In the ordinary administrative services, no such relation exists. Receipts and expenditures are almost wholly independent one of the other. Funds with which to carry them on are derived from general revenues, which are secured independently of their operations. Their expenditures constitute direct charges upon the general funds of the government and their amounts are independently determined. Any increase or decrease in their operations is thus reflected in the income and expenditures of the government. In sharp contrast with this, any increase in the scale on which the operations of a revenue-producing enterprise are carried on normally produces a corres-

pending income to take care of the increased expenditure involved. It is evident that an increase or decrease in the scale on which these enterprises are conducted affects the general financial condition of the government to but a slight extent, if at all. In consequence, it is highly desirable that the financial operations of these services shall be as far as possible clearly suggested from the other financial operations of the government.

In the second place it is of prime importance that the financial results of the operations of each such service shall be accurately known. This information can only be secured when the accounts of each are separately shown, and when for each service the receipts and disbursements are shown in comparison one with the other.

Thirdly, it is desirable that the accounts relating to these services shall correspond in character to those kept by private undertakings for gain. This means that their accounts shall be kept on an accrual basis; that use will be made of a balance sheet that will show physical or fixed assets and liabilities as well as cash or current assets and liabilities; that a system of cost accounts shall be employed that will permit of an analysis of cost and the statement of cost in terms of units of product or services produced or rendered; and generally that the accounts shall be of a character that will furnish all the information regarding assets and liabilities, revenues and expenditures, and unit costs that is demanded of the accounting system of any well-run private corporation. Such an accounting system can only be established and effectively operated when the service is given administrative or financial autonomy and the financial operations are recorded and reported independently of those of any other service.

Finally, the segregation of the financial operations of services of this character is necessary in order to secure a proper statement of operations of the general fund. As has been pointed out, the expenditures of such services are totally dissimilar from the ordinary expenditures of government, since they have as their result the production of a compensating revenue. To include their total receipts and disbursements in the receipts and disbursements of the general fund, means a swelling of both sides of the account in a way that would give a false impression regarding the movement of government receipts and disbursements, properly speaking. The importance of this point can be realized by appreciating the confusion in the statement of public accounts that would have resulted had the gross receipts and disbursements of the railroads been handled through the general fund while they were under the direct administration of the national government.

It follows from the foregoing that the proper method of handling the receipts and disbursements of such services is through the

establishment of a separate fund for each such service, into which will be paid its gross receipts and from which will be paid the gross disbursements of the service to which the fund relates. In view of the fact that such services, at the outset at least, must incur large expenses of a capital outlay character and must permanently have on hand cash resources sufficient in amount to enable them currently to meet their obligations, it is necessary to establish such funds through initial appropriations from the general fund, which would be treated as capital and recorded as such upon the general books of the government and of the establishment so financed. Thereafter, each of these funds should be maintained primarily through its current receipts, which will produce the resources needed for meeting the current expenditures. Due to this feature these funds are usually known as working capital or revolving funds.

It is evident that if the operations of each of these working capital or revolving funds are kept separate from those of all other working capital or revolving funds and of the general fund, they will affect the operations of the latter fund only in so far as each such fund produces a surplus which can be turned into the general fund, or incurs a deficit which must be met by a grant from the general fund. Except in those cases where the revenues of working capital or revolving fund are just sufficient to meet disbursements to be made from it and neither a surplus nor a deficit is developed, the operations of these funds will be reflected in those of the general fund only through items representing the transfer of surplus from the working capital or revolving funds to the general fund or the transfer of moneys from the general fund to the working capital or revolving funds to meet deficits in the latter. The appearance of these items in the statement of operations of the general fund thus reveals clearly the net results of the operations of each of these working capital or revolving funds as they affect the general problem of financing the government. The operations of the working capital or revolving funds will be upon a gross, and those of the general fund on a net, basis as regards this class of public receipts and expenditures.

Manifest as are the advantages of handling the financial affairs of revenue-producing services through the use of working capital or revolving funds as here suggested, they have never been definitely recognized by the national government. Prior to the entrance of the United States into the World War the principle of financing a revenue-producing service through the use of a special fund had been adopted only in the case of the Postal Service, and here the requirements of a working capital or revolving fund had been only partially met. Though provision was made for a special fund into which postal receipts were paid and from which postal



expenditures were in the main met, not all postal expenses were paid from such fund. Thus, for example, all expenditures for the support of the Post Office Department proper at Washington, for the erection of post offices, and for the audit of postal accounts, instead of being met from the postal fund, were a direct charge upon the general fund. The result was that the operations of the postal system as they affected the general fund were on neither a gross nor a net basis, and it was a matter of great difficulty to determine the extent to which this service was or was not upon a self-supporting basis.

While a certain half-hearted effort was made to segregate the operations of the postal service and to handle them through a special fund, no attempt, prior to the World War, was made to handle other revenue-producing enterprises in this way. The operations of such services as the Reclamation Service, the Forest Service, the Panama Canal, etc., are handled through the general fund in such a way that the general fund is neither on a uniformly gross nor a net basis as regards these services, and it is difficult to obtain a clear understanding of the financial condition and operations of each of these services by a segregated statement of its own assets and liabilities and its receipts and disbursements, or to get any proper statement of the conditions and operations of the general fund.

During the World War the device of the working capital or revolving fund was adopted in the case of a number of enterprises into which the government was forced to enter as a part of its general war activities, such as the Railroad Administration, the War Finance Corporation, the Emergency Fleet Corporation, the United States Housing Corporation, the United States Grain Corporation, etc. In doing this the government followed the correct policy. Unfortunately, however, in providing for the organization of the subsidiary corporations, it failed to provide for the setting up of the same system of accounting and auditing control that existed in the case of the general fund. The result was that these bodies carried on their operations largely free from any treasury control or any effective control by Congress. This led the Secretary of the Treasury, Carter Glas, to call attention in his annual report for 1919 to the existence of these revolving funds, to express his concern over the lack of treasury control over them, and to recommend that they be abolished and that all the revenues of such corporations be turned into the treasury, that their expenditures be controlled by appropriations, and that their accounts be subject to the same audit as those of the general fund.

If by these recommendations, Secretary Glass meant to include the transactions of these special funds in those of the general fund,

the result would be to add more confusion to the financial statements of the government. The proper solution of the problem lay rather in the more definite recognition of working capital or revolving funds for such agencies, and in placing these funds under the same system of accounting control and audit as the general fund. If this were done, information as to the condition and operation of these funds and the net results of their operations on the general fund could be presented in the general financial reports of the government, while retaining the advantages of segregating the transactions of the revolving funds from those of the general fund. In connection with the new budget system, subsidiary budgets for these working capital funds should be prepared and submitted to Congress along with the general budget, but as separate schedules as a basis for Congressional action. With special budgets for such services the general budget will contain but a single entry in respect to each; an entry on the revenue side if the service produces a net surplus for payment into the general treasury, or one on the expenditure side if there is a deficit in operation that has to be met from the general fund. Through these entries the subsidiary or special budgets will be tied to the general budget and their influence on the latter properly determined.

So much attention has been paid to this matter of working capital or revolving funds, because it constitutes one of the foundation stones upon which any proper system of government account must be built, and because to an increasing extent governments are entering the field of revenue-producing enterprises. In each case where the government does enter this field, it is of prime importance that full and accurate information shall be secured regarding the financial results achieved, so presented that one side of the account can be seen in comparison with the other. Such information can only be secured through the procedure here recommended. Scarcely less important is the fact that through the use of this procedure the problem of keeping and presenting the general accounts of the government is vastly simplified, and a satisfactory answer secured to the question which has always given trouble as to whether accounts should be kept on the gross or net basis.

Another class of government operations to which the principle of working capital or revolving funds can be applied with advantage are those having to do with the function of supply. Whenever provision is made for a service which supplies the operating services with the material required by them or which acts as a contracting agency to perform certain classes of work, it is desirable that it should be financed not through annual appropriations, but through revolving fund. Such a service should carry on its operations precisely as though it were an agency independent of the

government. It should bill the various services served by it for material furnished or services performed. Its receipts in this way will constantly replenish its capital or revolving fund and permit it to meet its expenditures. The charges made should be sufficient to meet both the direct cost and the general cost of operating the service, to the end that the capital fund once established by an appropriation from the general fund will not afterwards have to be added to except as need may arise for important additions to plant or equipment. From the budgetary and accounting standpoint this system has the great advantage that the cost of the material supplied or services rendered appear, as they should, as costs of the services served instead of costs of the services rendering the service.

**Loan Funds.** The acts authorizing the incurring of bonded indebtedness usually provide that the proceeds of the sale of the bonds shall be available only for certain designated purposes. In order that these requirements may be met it is necessary that all operations having to do with receipts of this character and their expenditure be handled as special funds.

**Sinking Funds.** Sinking funds are funds specially created for the purpose of making methodical provision for the payment of public debt. Usually provision is made for their constitution at the time that the indebtedness is incurred, and the obligations assumed by the government in respect to them constitute a part of the contract entered into between it and the purchasers of the bonds representing the debt. In other cases governments subsequently provide for the creation of such funds in order that a definite policy in respect to debt payment may be adopted. The provisions governing sinking funds vary, but all have as their basis the payment into them from the general fund of certain fixed amounts of money annually or at other fixed periods, or the proceeds of certain taxes or other public dues, which amounts shall constitute funds available only for the payment of public debt. In some cases the bonds purchased by the sinking fund are immediately cancelled and retired, In other cases the provisions of law or regulations governing the sinking fund provide that the bonds purchased shall be held by the fund as an investment upon which the government must continue to pay interest. In such cases the sinking fund has an additional source of income that is constantly increasing in amount in the form of the interest secured in this way.

At the present time the national government makes use of a sinking fund for the systematic retirement of the debt incurred by it in the prosecution of the World War. This fund was established by Section 6 of the Victory Liberty Loan Act of March 3, 1919, which repealed the provisions of the law for a former sinking fund,

which had become unworkable. The new law provides for the creation of a sinking fund for the requirement of all war issues, into which shall be paid annually until the debt is paid, an amount equal to "2½ per cent of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1, 1920; and (2) the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed or paid out of the sinking fund during such year or in previous years."

This provision for the payment of the World War debt through the instrumentality of a sinking fund, represents, it should be remarked, only the minimum reduction to be effected. There are other provisions of law providing for the devotion of other receipts directly to the reduction of debt, and any surpluses in the general fund over and above current needs are as a matter of course devoted to debt reduction.<sup>1</sup>

**Endowment Funds.** By endowment funds is meant those funds the capital of which has been derived from budgets or donations, which may not be expended but must be invested for the purpose of earning an income which later can be applied only to certain specified purposes. The funds are usually few and of relatively small importance. Owing to their special character they must, however, be set up as distinct class of funds. In the national government the chief funds of this kind are: the Smithsonian Fund, the Gardner Green Hubbard Endowment Fund, and the funds for the education of the blind and the preservation of Lincoln's birthplace.

**Public Trust Funds.** Most governments receive and have the handling of important sums of money which, while they are public funds, are not freely available for expenditure by them, but must be administered for the benefit of other government institutions or persons. Important examples of funds of this character are those set aside for meeting the requirements of systems for the pensioning of government employees, those consisting of collections made by governments which must be turned over to other governments, etc. It is an ordinary thing for officers of political subdivisions of a state to collect taxes or other charges due the latter in connection with the collection of taxes due their own government, or for state officers to act in a similar capacity for the political subdivisions of the state. The national government receives important sums in this

<sup>1</sup>This whole question of the use of sinking funds as a means of debt reduction has an exceedingly interesting history and furnishes an interesting topic of public finance. It is only considered here as it has a bearing upon the problem of public accounting.

way, which by law must be turned over to, or used for the support of, its dependencies, the District of Columbia, and insular dependencies. The moneys so received by governments, though public funds, are not available for expenditure by the government receiving them. They constitute what is here termed "public trust funds."

**Suspense Funds.** Suspense funds comprise those funds that are set up to account for certain cash receipts pending distribution or disposal. Moneys are often received by a government that must be held in suspense, awaiting determination as to their disposition. Such suspense funds are also needed, though not definitely required by law, in cases where certain receipts are made available for various specified purposes in prescribed proportions at stated intervals. For an accurate distribution of such receipts to the several funds, they have to be placed temporarily in a suspense fund.

**Private Trust Funds.** As stated, governments receive moneys and securities in trust for private purposes, over which they exercise responsibility as custodians rather than owners. This responsibility should be met by segregating those receipts as private funds on the books of account.

**Summary.** In the foregoing the attempt has been made to indicate under only the most general heads the different character of funds, provision for which must be made in organizing a system of public accounting. The main purpose of the discussion has been to bring out the complexity that is introduced in public accounting through the necessity that exists for observing these fund distinctions and the means by which the problem of presenting data regarding a government's financial condition and operations may be simplified by taking account of these distinctions in the preparation and publication of financial statements.

Though most governments, as of necessity, meet the requirements of maintaining fund distinctions on their books of account, many fail signally in observing those distinctions in a proper way in their financial reports. The national government is a gross offender in this respect. In its reports, even the primary distinction between public funds and private trust funds and between public funds which are "general" and those which are "special", are almost wholly ignored. Thus, to cite but a few instances of this disregard of fund distinctions, though the law specifically provides that the receipts of certain services shall constitute special funds from which payments to meet the expenditures of such services shall be made, these receipts are covered into the treasury to the credit of the general fund and payments on account of these services are made from such fund. Examples of such practice are furnished by the Reclamation Fund and the Forest Service Fund. More indefensible

still, receipts representing deposits by private persons or corporations or other moneys which come into the hands of the Treasurer as trustee are likewise credited to this fund. In a word, no attempt is made by the Treasury Department to give to the general fund its proper character of one representing moneys which are of a purely public and unpledged nature.

The result of this failure on the part of the Treasury Department rigidly to segregate on its books, or at least in its published statements, the data relative to the several classes of funds with which it has to deal not only complicates the problem of determining the real facts regarding treasury resources, receipts, and expenditures properly speaking, but it also gives to the public figures which are often meaningless if not absolutely misleading. The correction of this faulty practice constitutes one of the important changes required in the present reporting system of the national government.

## CHAPTER XXXVIII

### DATA REQUIRED REGARDING FINANCIAL CONDITION

Having secured, as it is hoped, an idea of the nature and functions of accounts, the basic problems that are presented in organizing a proper accounting and reporting system, the general nature of the information that such a system should provide and the manner of its presentation, we are now in a position to determine with great particularity the precise character of the data that should be rendered available regarding a government's finances.

**Two Classes of Financial Data Required.** In entering upon this part of our study, the first point to be noted is that, in all governments, as well as in all private undertakings for gain, those in charge of operations or interested in the results require information regarding two things: (1) The financial condition of the government or enterprise at a fixed date; that is, how it stands from a property or investment standpoint; and (2) what has been the character and results of operations during a given period. These two classes of information, though distinct and requiring distinct statements for their presentation, have an intimate relationship with each other in that the operations of a period affect the condition and are reflected in the statement showing the condition at the end of the period as compared with the condition as shown at its beginning. The two sets of statements must be in adjustment with and in a way support each other.

**Data Required Regarding Financial Condition.** Stated in its simplest terms, the information required regarding the financial condition of an enterprise consists of data showing in detail and in summarized form all of its possessions, whether such possessions are actually in hand or are owing to it, and all charges or debts standing against such possessions; or, to use the more technical accounting terms, all of its assets and liabilities.

This information, it will be observed, serves three distinct, though closely related, purposes: it gives to those responsible for the direction of the enterprise or interested in its results, a complete statement of the financial obligations that this enterprise is under; it furnishes a similarly complete statement of the resources that the enterprise has with which to meet such obligations; and, by a

balancing of its total resources against its total obligations, it shows the net financial condition or, to use a more technical term, the "net worth" of the enterprise on the date to which the data relate. It is by contrasting this last item with the corresponding item for a prior date that the extent to which the enterprise has bettered or worsened its condition is made known.

**Classification of Assets and Liabilities.** Though this figure showing "net worth" is in the case of private undertakings for gain, at least, the most important fact needed regarding financial condition, it is highly desirable if not essential that information shall also be at hand regarding the value of the several classes of items entering into the two sides of the account by which this figure is arrived at. It is of prime importance that those responsible for the conduct of an undertaking or those who are interested in its operation and results, shall know; not only the total value of its assets, but also the extent to which such assets consist of property actually in hand or are represented merely by moneys due it; the extent to which they are of a character that they can be used for meeting current obligations, or are represented by fixed property, the permanent possession and use of which are essential if the undertaking is to continue as a going concern. In like manner it is desirable that information shall be available regarding the extent to which liabilities consist of moneys advanced by the persons owing the enterprise, moneys borrowed on long term obligations, such as bonds and mortgages, or are debts which have to be met in the immediate future.

Information of this kind can only be secured by the adoption of a scheme of classification of assets and liabilities that will bring out the distinctions regarding which it is desired to have information. Furthermore, it is only by making such distinctions that the relationships between different groups of assets and liabilities may be determined.<sup>1</sup> As has been pointed out in a recent work, "every asset, on account of its nature and purpose, has a definite relationship to some liability; on the other hand, every liability, on account of the purpose for which it was incurred and the means provided for its liquidation, has a definite relationship to some asset or some group of assets. This condition in all its aspects cannot, therefore, be known until the several relationships are ascertained by grouping assets according to their nature and purpose, and liabilities according to their origin and method of liquidation. This method brings together all the assets and all the liabilities that relate to a given aspect of financial condition." One of the

<sup>1</sup>Francis Oakey, *Principles of Government Accounting and Reporting*, Institute for Government Research, *Principles of Administration*, 1920, p. 203.



first problems to be met in formulating a system of accounting and reporting for an enterprise is the working out of a satisfactory scheme of classification of assets and liabilities.

**Distinction Between Fixed and Current Assets and Liabilities.** Fortunately, as a result of long experience, a substantial agreement has been reached by administrators and accountants regarding the distinctions that should be made between the several classes of assets and liabilities. Among these distinctions, first in importance is that between what are known as fixed assets and liabilities and current assets and liabilities.

Fixed assets consist of those possessions which are, in intent at least, permanently invested in the enterprise. They are represented for the most part by such items as real estate, improvements upon real estate, and permanent equipment which collectively constitute what is known as plant. Such items as patent rights, franchise, goodwill, etc., may be shown under this head or given a special classification of their own. Due to their character, fixed assets are often referred to as or designated "capital assets."

Fixed liabilities consist of items which are in the nature of permanent charges against fixed assets. For the most part they represent moneys which have been invested in the enterprise and take the form of stocks, bonds, mortgages, and other items which either have no date on which they are payable, or run for a long period of years and thus do not have to be met as a matter of current financing.

Current assets consist of all other items which are currently available for meeting the running expenses of the undertaking. They consist of such items as free cash on hand, moneys due the enterprise, supplies on hand available for use by the enterprise in carrying on its work, completed or partially completed produce intended for sale, what is known as work in progress, temporary investments that can be realized upon, etc.

Current liabilities consist of debts or bills payable, short term borrowings intended to be met out of current revenues, accrued taxes, interest charges, etc.

This distinction between fixed and current assets and liabilities is one of prime importance, since, as regards liabilities, the latter are the only ones for the meeting of which provision should normally be made out of current income and, as regards assets the latter are normally the only ones out of which such current liabilities should normally be met.

**Sub-Classification of Assets and Liabilities.** In addition to making this main distinction between fixed and current assets

and liabilities, it is further desirable that the items comprehended under each such main head should be sub-classified according to its character.

Thus, for example, under the heading of "fixed assets" it is desirable to distinguish between land, improvements upon land, machinery and equipment, patent rights, goodwill, permanent investments, etc.

Under the heading "fixed liabilities" it is desirable to show separately all stocks, bonds, or other securities representing money invested in the enterprise, distinguished according to their respective rights, maturities, or other important features.

Under the heading "current assets" the most important distinction is that between assets representing cash or property actually in hand and those representing money due to the enterprise or, to use the technical term, "accounts receivable." The first named class of current assets may be further classified according to character, for example, cash, material, supplies, work in progress, finished product, etc.

Under "current liabilities" important distinctions are those between bills payable, accrued salaries, taxes, insurance, interest, etc., and short term obligations maturing within the next fiscal period.

**Nature and Function of a Balance Sheet.** It has been pointed out that an enterprise should have complete information regarding its assets and liabilities and the relation that exists between these two elements. This relationship can only be established by presenting the facts regarding the two in comparison one with the other. The document through which this information regarding the assets and liabilities of an enterprise is brought together, classified, and presented so as to show the relation that the several items bear to each other and particularly the relationship between total assets and total liabilities, is known as a balance sheet. It gets this name, since the two sides of the account are made to balance by showing on the proper side the amount needed to bring the two totals into agreement. If total assets exceed total liabilities, as is usually the case in a going concern, this excess constitutes what is known as a "surplus." If the reverse is true, the difference constitutes a "deficit" and is so named. Every balance sheet contains either the item "surplus" or "deficit." The prime characteristic of a balance sheet is that it brings together in one comprehensive showing, a classified statement of the total resources and obligations of the enterprise, to which it relates, and thus makes it possible to determine at a glance its financial condition, or its "net worth."

A balance sheet may be defined as the document in which is brought together and presented a complete statement of all of the assets and liabilities of an enterprise so classified as to show clearly their nature and relationship to each other. In theory, the items to be included may be presented in such detail as may be desired. In practice, however, it is desirable that the showing shall be of a very summary character, in order that it may present a general picture, or bird's-eye view of the financial condition of the enterprise to which it relates, unobscured by details. In all cases, however, the balance sheet should be supported by documents, known technically as schedules, giving the details of the items entering into the totals shown on the balance sheet, and specific reference should be made in the balance sheet to such schedules for the details supporting its showings. A report on the financial condition of an enterprise, therefore, consists primarily of a balance sheet and supporting balance sheet schedules.

Following is a form of balance sheet in which the several distinctions that have been mentioned are made:

### BALANCE SHEET

Accounts	Fiscal Year		
	19—	19—	19—
<b>ASSETS:</b>			
<i>Current:</i>			
1. Cash .....	....	....	....
2. Taxes Receivable.....	....	....	....
3. Accounts Receivable.....	....	....	....
4. Stores.....	....	....	....
5. Other Current Assets.....	....	....	....
Total Current Assets.....	....	....	....
<i>Fixed:</i>			
1. Investments .....	....	....	....
2. Lands and Interest in Lands..	....	....	....
3. Buildings, Structures, and Per-	....	....	....
manent Improvements ....	....	....	....
4. Equipment.....	....	....	....
5. Construction Work in Progress	....	....	....
Total Fixed Assets.....	....	....	....
TOTAL ASSETS.....	....	....	....

## BALANCE SHEET—(Continued)

Accounts	Fiscal Year		
	19—	19—	19—
<b>LIABILITIES AND DEFERRED CREDITS:</b>			
<i>Immediate Demands against Cash:</i>			
1. Vouchers Payable.....			
2. Warrants Payable.....	....	....	....
3. Interest Accrued and Due....	....	....	....
	....	....	....
Total Immediate Demands against Cash.....	....	....	....
<i>Other Current Liabilities:</i>			
1. Temporary Loans.....	....	....	....
2. Liabilities to Private Trust Funds	....	....	....
3. Contract Holdbacks.....	....	....	....
Total Other Liabilities..	....	....	....
<i>Deferred Credits:</i>			
1. Unearned Property and School Taxes.....	....	....	....
2. Unearned Income Taxes....	....	....	....
Other Deferred Credits.....	....	....	....
Total Deferred Credits..	....	....	....
<i>Fixed Liabilities:</i>			
Funded Debt, Bonds Payable....	....	....	....
Less Sinking Fund Assets.....	....	....	....
Net Bonded Indebtedness....	....	....	....
Total Liabilities and Deferred Credits.....	....	....	....
<b>SURPLUS:</b>			
1. Current Surplus:			
Excess of Cash over Immediate Demands.....	....	....	....
Excess of other Current Assets over Other Liabilities and Deferred Credits.....	....	....	....
Total Current Surplus.....	....	....	....
2. Capital Surplus (excess of Fixed Assets over Fixed Liabilities)..	....	....	....
TOTAL SURPLUS.....	....	....	....
Total Liabilities, Deferred Credits, and Surplus.....	....	....	....

**Method of Procuring Data for a Balance Sheet and its Supporting Schedules.** The data for presentation in a balance sheet and its supporting schedules may be secured in two ways: by a process of stocktaking or inventorying, or by the installation and operation of a system of accounts that will accurately record all transactions affecting the assets and liabilities of the undertaking as they occur. The advantages of the second method are obvious. It not only makes possible a statement of conditions at any time but it also furnishes a detailed record of all the transactions which have been responsible for the condition shown. This consequently, is the method universally employed in all but small and simple enterprises. When resort is had to inventories, the purpose is either to determine the value of particular physical assets or to check the figures secured through accounting operations.

There are four features of this system which it is necessary here to mention. The first is that this system involves the setting up of special accounts known as "capital accounts," in which will be entered all transactions representing additions to or subtractions from any of the classes of assets and liabilities in which the assets and liabilities of the concern have, for information purposes, been classified. Secondly, it is necessary to distinguish between those transactions which represent a mere conversion of assets or liabilities from one form to another and those which represent a net change in total assets and liabilities. For example, the erection of a new building or the purchase of additional equipment means merely that assets in the form of cash have been converted into assets in the form of physical property. The destruction of property by fire or otherwise represents, on the other hand, a final loss. Thirdly, account must be taken of gains and losses that result otherwise than through operation proper. In this category the most important items are gains through the appreciation of the value of physical property or losses through depreciation of such property due to use, obsolescence, or other cause. Finally and most important of all, it is imperative that the system shall be one which takes account both of transactions by which obligations are incurred and those by which these obligations are discharged. In all active undertakings, final payment for purchases and to a less extent for services rendered is in large part not made until a considerable time has elapsed after the goods have been received or the services performed. This is due partly to the extent to which credit enters into modern business and partly to the time necessarily required for the examination and settlement of claims. To state this in another way, no accurate balance sheet for private undertaking for gain can be prepared from its accounts unless its accounting system rests squarely upon an accrual basis.

**Need for a Special Treasury Balance Sheet.** In the foregoing consideration of the nature, function, and character of a balance sheet, no attempt has been made to distinguish between the character of the balance sheet that should be prepared for a private enterprise and a government. Examination will show, however, that while it is desirable that the accounting system of a government should be such as will permit of the preparation of a balance sheet of the character described and illustrated above, a statement of this character by no means meets all the requirements of a government, and that if it stands alone as the only showing of a government's assets and liabilities it may do actual harm by misleading the reader as to the true conditions from the standpoint of conveying information upon which to base governmental policies. Among the factors giving a special character to the problem of the preparation of a balance sheet for a government, the most important are the following.

It has been pointed out that the prime function of the ordinary balance sheet is to make known the "net worth" of the enterprise to which it relates, since without such datum it is impossible to determine the extent to which the undertaking is solvent or to take intelligent action in respect to the distribution of surplus in the form of dividends.

In the case of a government, this item "net worth" even if it could be accurately ascertained, and it cannot, is of little or no practical significance. There has been no investment by the citizen-stockholders of fixed sums, upon which profits in the form of dividends or interest is sought or which can be realized upon in any way by transfer or the liquidation of the government. There is no intention ever to wind up the affairs of a government, and only in extremely rare cases does such an event ever occur. The information that it is desired to have regarding the assets and liabilities of a government have to do wholly with its operation as a going concern, the affairs of which will never be wound up, and which will make no distribution of surplus to the stockholders except in the form of service rendered.

Secondly, and of still greater significance, is the fact that the physical or fixed assets of a government are, for the most part, of a radically different character from those of a private undertaking. All of the fixed assets of a private undertaking are, in principle and for the most part in fact, ones that can be realized upon by sale. This not true of the greater part of the fixed assets of a government. In the first place, much the most important part of such assets, though belonging to the government, are dedicated to the use of the public. Such, for example, is the property that a government has in the form of streets, parks, shade trees, monuments, sewer in-

stallations, and other works of a like character. Secondly, most, if not all, of the remaining physical property of the government consists of land, buildings, and equipment used by the government in the performance of its current activities. Little or no part of this property can ever be realized upon so long as the government remains a government, and as has been indicated, the whole financial system of a government must be predicated upon the principle that it is to continue forever.

Finally, the most important asset that a government has, it is practically impossible to show on a balance sheet. Reference is made to the tax-paying abilities of its citizens. No one can question that the greatest resource that a government has is its ability to demand contributions from its citizens. This ability is one which cannot be accurately measured and stated, and even the most extreme advocates of the use by governments of balance sheets similar to those employed by private undertakings have never suggested the attempt to include this item.

It will be seen from the foregoing that, while a balance sheet as ordinarily constructed on the model of one for a private enterprise conveys valuable information concerning the government from a proprietary standpoint, it does not give a proper picture of financial conditions from the policy-determining standpoint. A government balance sheet prepared on this plan necessarily shows, in practically all cases, a tremendous "surplus" or excess of assets over liabilities. One looking at this figure might suppose, and indeed, is directly induced to suppose, that the government to which the balance sheet relates was in an excellent financial condition, while in fact, it may be in grave financial difficulties due to the fact that the current liabilities may be wholly out of proportion to its current assets. Even from the standpoint of public credit, the fact that a government has physical assets greatly in excess of outstanding bonded indebtedness is of no significance and the attempt to give it significance can result only in deception. This arises from the fact that such assets, whatever may be true in theory, are, in fact, not available for meeting such indebtedness. A balance sheet, however, constructed as recommended above, distinguishes clearly between assets which are available for meeting obligations and those which are not, and in large measure meets those objections.

The inadequacy of the ordinary balance sheet to reveal conditions upon which to base financial policies can best be met by the preparation of another balance sheet having this purpose specially in view. This balance sheet should aim to show treasury conditions rather than the condition of the government as a proprietor; that is, it should seek to present only those items which

real treasury assets on the one hand and obligations to be met from treasury revenues on the other. To distinguish it from the general or government balance sheet, it is suggested that such a statement be designated as a "Treasury Balance Sheet." The character that such a statement should have is shown by the following treasury balance sheet that has been prepared for the national government in order to show treasury condition on June 30, 1926.

## TREASURY BALANCE SHEET

JUNE 30, 1926

## ASSETS:

*Current:*

1. Cash in Treasury.....	\$207,481,915.43
2. Case in Depositories.....	251,743,629.85
3. Drafts, etc. ....	<u>60,801,453.14</u>
Total Current Assets.....	<u>\$520,026,998.42</u>

*Capital:*

1. Due from Foreign Governments:	
1. Funded, .....	\$4,725,490,865.00
2. Unfunded, .....	5,296,224,067.95
3. Sale of War Supplies.....	510,838,117.78
4. Accrued Interest (estimated)....	115,000,000.00
5. Germany (expenses of occupation).	<u>233,141,247.42</u>
Total Due from Foreign Governments. .	<u>\$10,880,694,288.15</u>

## 2. Securities owned:

1. Railroad.....	\$299,112,850.64
2. Federal Farm Loan Bank Bonds..	60,495,000.00
3. Securities for Sale of ships, Supplies, etc. .,	58,152,994.12
4. Capital Stock Government Corporations	86,847,516.17
5. Due from Central Branch, Union Pacific Railroad.....	<u>3,466,834.82</u>

Total Securities Owned. .... \$508,075,195.75

TOTAL CAPITAL ASSETS..... \$11,388,769,483.90

TOTAL ASSETS..... \$11,908,796,482.32

## LIABILITIES:

*Current:*

Accounts Payable..... \$308,898,919.99

Total Current Liabilities..... \$308,898,919.99



*Capital:**Debt:*

1. Interest-bearing .....	\$19,383,770,860.05
2. Matured Debt on which Interest has Ceased	13,327,800.26
3. Debt Bearing No Interest.....	246,084,419,318
4. Other.....	<u>140,649,570.52</u>

Total Debt..... 19,783,832,650.21

Total Capital..... 19,783,832,650.21

TOTAL LIABILITIES..... \$20,092,731,650.20

## SUMMARY :

1. Excess (or deficit) Current Assets over  
Current Liabilities..... +\$211,128,078.43
2. Excess (or deficit) Capital Assets over  
Capital Liabilities..... —\$8,395,063,166.31
3. Excess (or deficit) Total Assets over  
Total Liabilities..... —\$8,183,935,087.88

The value of a statement of this character, which is stripped of all assets in the form of property owned, which is dedicated to the use of the public, or which is needed by the government in order that it may function and thus is not of a realizable character and is limited to financial resources and obligations, strictly speaking, must be apparent. It shows, in a way, that the general or government balance sheet as ordinarily prepared does not show the relationship between the resources and obligations of the government that must be taken into consideration in determining the effective condition of the treasury and in framing financial policies. The fact, for example, that the government has assets in the form of property dedicated to the use of the public or required for its own use far in excess of the total of liabilities, is a matter of interest but of no real importance from the standpoint of determining the real financial condition of the government. It is a matter of great importance to know, however, that while the government has a liability of \$19,783,832,650.21 in the form of indebtedness, it has as an offset to this liability tangible assets that it expects to realize upon of \$11,388,769,483.90, with the result that the net debt situation is but \$8,395,063,166.31, and that if a comparison is made between total assets and liabilities, current as well as capital, its net condition is shown by the figure \$8,183,935,087.88.

**Statement of Resources and Obligations.** In the foregoing an attempt has been made to show that if a government is to have the information that it needs regarding its financial conditions, use must be made of two distinct balance sheets, the one known as "general or government balance sheet," showing the condition of the government from a proprietary standpoint, and the other known as a "treasury balance sheet," showing only those assets and liabilities that are of direct concern to the treasury. Even with these two statements the needs of the government are not fully met. Neither indicates in a satisfactory manner the situation from the budgetary standpoint, since both fail to show resources in the form of taxes and other dues to be received during the ensuing fiscal year, which may be treated as a resource at the beginning of the year and the extent to which resources are already encumbered by outstanding appropriations. To furnish this information there is need for still a third statement, which may be designated as a statement of resources and obligations, to distinguish it from the other two statements that have been described. Following is a suggested form for such a statement for the national government, though the form is one that is applicable to all governments.

## STATEMENT OF RESOURCES AND OBLIGATIONS

JUNE 30, 1926

### RESOURCES:

1. Available Cash Balance June 30, 1926 (Excess of cash over immediate demands)	\$211,128,078.43
2. Estimated Income July 1, 1926— June 30, 1927.....	<u>4,026,780,688.00</u>
TOTAL RESOURCES.....	<u>\$4,237,908,766.43</u>

### OBLIGATIONS:

1. Unexpended Balance Prior Year's Appropriation .....	<u>\$886,050,657.67</u>
2. Appropriations Fiscal Year 1926— 1927.....	<u>\$3,259,222,093.48</u>
TOTAL OBLIGATIONS.....	<u>\$4,145,272,751.15</u>

ESTIMATED SURPLUS (OR DEFICIT) .....	<u>+\$92,636,015.28</u>
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This statement, like the treasury balance sheet, has a very special purpose to serve; that, namely, of getting before the legislature existing conditions in respect to commitments in the form of appro-

priations outstanding and the resources that are available for meeting these commitments. It, thus, includes items relating only to current resources and obligations. It will be noted that this statement relates to internal conditions as regards commitments and resources with which to meet those commitments and not to the relations of the government to the outside world.

Before leaving this subject, a modification in the form of this statement as reproduced above should receive consideration. In the form in which that statement is given the totals of the unexpended balance of prior years and of the current year's appropriations are given as obligations. It is certain that all of these appropriations will not be expended during the year and that there will be a balance of appropriations unexpended at the end of the year, to be carried forward to the next year's statement. The surplus at the end of the year will, consequently, be as much greater than the figure shown as the amount of this balance of unexpended appropriations. In view of this fact, a preferable form of statement might be to show estimated expenditures during the year under each of the heads "Unexpended balances of prior year's appropriation" and "Appropriations Fiscal Year 1926-1927," instead of the total of such appropriations outstanding on the books.

**Fund Balance Sheet.** In the foregoing account of the character of statements that it is desirable to have regarding financial condition, no consideration has been given to the question of fund distinctions. For purposes of simplification, the question has been treated as if a government made use of but a single fund into which all receipts were paid, and from which all expenditures were met. In point of fact, as has been shown, most governments provide for a large number of funds. Each of these funds has its accounting autonomy, its own assets and liabilities, and receipts and expenditures. As a result there is need for a separate balance sheet for each fund which will show its particular condition. In addition to these individual fund balance sheets, it is of value to prepare consolidated fund balance sheets for the several classes of funds and, finally, a consolidated balance sheet for all public funds.

## CHAPTER XXXIX

### DATA REQUIRED REGARDING OPERATIONS

Mention has been made that two classes of information are required regarding a government's finances. In the preceding chapter a description has been given of the character of the first class of information needed, that showing condition at a given date, *e.g.*, the end of the fiscal year. In the present and the succeeding chapter consideration is given to the second class, that showing the results of operations during a given period, *e. g.*, the fiscal year.

**The Operating Statement.** In the same way that it is desirable to have a general or basic statement in which the total of assets or resources are set off or balanced against the total of liabilities or obligations, so it is desirable to have a basic statement in which total income is contrasted with total outgo in such a way as to show the net results of operations in the form of a deficit or surplus. The basic statement of this character is known as an operating statement. Following is a form of operating statement, reduced to its simplest terms:

#### OPERATING STATEMENT

##### RECEIPTS:

Revenue.....	
Non-Revenue.....	
Total Receipts.....	

##### EXPENDITURES:

Expense .....	
Outlay.....	
Total Expenditures.....	
Excess or Deficit, Revenue Over Expense.....	
Excess or Deficit, Non-Revenue Over Outlay.....	
Excess or Deficit, Receipts Over Expenditures.....	

**Distinction Between Revenue and Non-Revenue Receipts and Expense and Outlay.** The only feature of this statement requiring comment is the distinction that is made between revenue and non-revenue under the head of receipts and that between expense and outlay under the head of expenditures. There is, manifestly, a great difference between a receipt resulting from the

collection of tax and that resulting from the sale of a security owned. The former represents a direct addition to assets; the latter merely the conversion of an asset from one form to another. In like manner, there is the same essential difference between an expenditure for personal services and one for the purchase of a security. The first represents a direct diminution of assets; the second a conversion of an asset from one to another. This distinction is well illustrated in the case of borrowing and payment of loans. Money received from the sale of bonds, while a receipt, is not a revenue, since the cash received is offset by the obligation incurred and the government is no better off as the result of the transaction. In like manner the financial condition of a government is not altered by the payment and cancellation of its bonds, since its cash is reduced by the amount to which the bonded indebtedness is reduced by the transaction. Cash received from the sale of bonds is, thus, a non-revenue receipt and cash disbursed for the payment of bonds, an outlay. "Revenue receipts," thus, constitute the income, strictly speaking, of a government and "expense," its expenditures from the standpoint of current operations. In many respects the real result of the period to which the operating statement refers is better shown by a balancing of revenues against expense than by comparing total receipts with total expenditures.

Fundamental as is this distinction between revenue and non-revenue on the one hand and expense and outlay on the other, it is one that is very generally disregarded by the accounting systems of our governments. In the financial reports of the national government, for example, when the government disburses several hundred millions of dollars, as it has, in making loans to railroads, taking in return their interest-bearing bonds, or purchases millions of dollars' worth of interest-bearing bonds of the Federal Farm Loan banks, this disbursement is treated precisely as if it were made for meeting the current operating expenses of the government. When money is received through the sale or redemption of these securities, it is covered into the treasury precisely as if it had been received in the way of taxes or other public dues. As a result of the failure to distinguish between these two classes of transactions, which are so dissimilar in character and affect in such a different way financial condition, the operating statement of the government may show a large surplus or deficit for the year, when in fact the reverse would be true if the comparison were made between the real revenue receipts and expenses of the period.<sup>1</sup>

<sup>1</sup>The Census Bureau, in its annual report on financial statistics of the states and cities, makes the distinction here urged and uses its best efforts to induce the states and cities to keep their accounts on this basis.

**Operating Statement Under Cash and Accrual Accounting Systems.** Note should be taken of the fact that if the accounting system is on the cash, the data presented will relate to actual receipts in cash disbursements of money; if on the accrual basis, the figures will relate to revenue and non-revenue receipts accruing and obligations incurred for expense and outlay during the period. It is hardly necessary to point out that a statement on the latter basis furnishes a true picture of the results of operations during the period, while one prepared on the cash basis may be, and usually is, misleading. Indeed, a statement on this basis may show an excess of revenue over expenses or non-revenue over outlay, when in fact deficit has resulted from operations. If the accounting system is on the accrual basis, the operating statement may be expanded from the form given, so as to distinguish under each head cash receipts and expenditures and those accruing during the period but not liquidated through the receipt or disbursement of cash.

**Fund Operating Statements.** As has been pointed out in the chapter dealing with fund distinctions, all receipts and expenditures in addition to being receipts and expenditures of the government as a whole, are receipts and expenditures of particular funds. In the same way that it is desirable to have a balance sheet for each fund, so it is desirable to have an operating statement for each fund. And from the operating statements of the several funds, consolidated operating statements should be prepared for the several classes of funds and for all public funds combined, the last being the general operating statement for the government as a whole as described above.

**Detail Data Regarding Receipts and Expenditures.** The operating statements that have been described have for their purpose to show merely the grand totals of receipts and expenditures, balanced against each other in such a manner as to show the results of the operations of the fiscal period in the form of an excess or deficit of the one over the other. Much additional data is needed regarding the character of these receipts and expenditures the organization units responsible for them, the purposes for which expenditures were made, etc. The character of these additional data will be shown in the two chapters that follow.

## CHAPTER XI

### DATA REQUIRED REGARDING RECEIPTS

While the total of receipts, with the distinction made between revenue and non-revenue, constitutes the most important single fact that it is desirable to have regarding a government's income, much additional data are needed regarding such income, both from the general information standpoint and that of policy determination and control. Examination shows that it is desirable to have the detail items of receipts as shown in the operating statement classified from at least three standpoints: (1) Sources from which derived; (2) organization units producing; and (3) funds to which the receipts must be credited.

**Classification of Receipts by Sources.** Of these three classifications of receipts, that by sources is much the most important from the information standpoint. A government receives its income from a great variety of sources: taxes of various characters, licenses, royalties, fees, fines, charges for services rendered, the sale of property no longer needed for government purposes, etc. Unless information is available regarding the amount of income that is received from each source, it is impossible intelligently to consider proposals for the modification of the revenue system of the government or to determine the extent to which the government is receiving the income to which it is entitled. In addition to knowing the amount received from each specific source, it is also desirable to know the total amounts received from all sources of a like character, as, for example, the total received from taxes, from fees of all kinds, etc. In order that this information may be obtained, it is necessary for a government carefully to list all sources from which it obtains its income, to open up an account on its books with each source, and, on the basis of such accounts, to prepare a financial statement showing in detail its income itemized under these heads. This done, the data so presented should be classified so as to show the subtotals representing the receipts from each class of items of a like general character.

Much pains have been taken by writers of public finance to work out this problem of the classification of government revenues. In general this effort has been directed to the preparation of schemes of classification that will set up certain distinctions which are believed to be of interest from the standpoint of general economics. Especially have they sought to make such distinctions as

those between direct and indirect taxes, between taxes on property and on income, between taxes on production and consumption, between royalties, fees, fines, etc. The various classifications resulting from these efforts have varied among themselves according as one feature or another has been deemed to be of primary importance. It is difficult to say that one is superior to the other, since one may be superior from one standpoint and another from another standpoint. To the writer one of the most satisfactory classifications is that given by Mr. Francis Oakey, in his volume on "Principles of Government Accounting and Reporting." Following is a copy of this classification.

### CLASSIFICATION OF REVENUES

#### Taxes

- A. Taxes on real property
- B. Taxes on personal property
- C. Poll taxes
- D. Taxes on capital
  - 1. Taxes on the capital stock of corporations
  - 2. Taxes on the value of shares
  - 3. Taxes on the amount of capital employed within the state (or city) by foreign corporations or non-residents
  - 4. Taxes on the surplus and undivided profits
- E. Taxes on volume of business
  - 1. Taxes on insurance premiums
  - 2. Taxes on the net value of insurance policies
  - 3. Taxes on the funds held by insurance companies
  - 4. Taxes on the average amount of daily deposits
  - 5. Taxes on gross receipts from business transacted within the state (or city)
  - 6. Taxes on the assessed valuation of commodities produced, manufactured or traded
    - a. Coal produced
    - b. Coal sold
    - c. Gas produced
    - d. Gas sold
    - e. Goods, wares and merchandise sold at wholesale
    - f. Goods, wares and merchandise sold at retail
    - g. Grain handled in grain elevators
    - h. Liquor bottled
    - i. Liquor brewed
    - j. Liquor distilled
    - k. Liquor sold at wholesale
    - l. Liquor sold at retail
    - m. Tobacco, cigars, and cigarettes manufactured
    - n. Tobacco, cigars, and cigarettes sold at wholesale
    - o. Tobacco, cigars, and cigarettes sold at retail
- F. Inheritance taxes
- G. Taxes on income
- H. Miscellaneous taxes

<sup>1</sup> Principles of Administration: Institute for Government Research, 1921, pp. 308-13.



1. Taxes on the transfer of securities
2. Taxes on legal instruments
3. Taxes on the face value of any secured debt

## II Licenses

- A. Licenses to engage in the business of producing, manufacturing or trading in commodities
- B. Licenses to trade in securities, money, and credit
- C. Licenses to render professional services
- D. Licenses to engage in skilled trades
- E. Licenses to render unskilled services
- F. Licenses to owners of structures used as shelters for persons and animals
- G. Licenses to owners or operators of places of amusement, recreation, etc.
- H. Licenses to exhibit or operate shows
- I. Licenses to owners or drivers of vehicles and boats
- J. Licenses to owners or harbourers of animals
- K. Licenses to fish, hunt or trap
- L. Miscellaneous licenses

## III. Permits

- A. Permits to erect or move structures above the surface
- B. Permits to erect structures below the surface
- C. Permits to make installations, connections, and attachments
- D. Permits to perform specific acts under licenses
- E. Permits to obstruct or break streets
- F. Cemetery permits
  1. Interments
  2. Disinterments
  3. Vaults
- G. Permits to licensed persons to perform specific acts contrary to the provisions of their licenses

## IV. Franchises

- A. Bus lines
- B. Conduit companies
- C. Express companies
- D. Ferry companies
- E. Light and power companies (including electric companies)
- F. Pipe line companies
- G. Pneumatic tube companies
- H. Railroad companies
- I. Street railway companies
- J. Telegraph companies
- K. Telephone companies
- L. Water companies

## V. Privileges

- A. Market privileges
- B. Park, boulevard, and playground privileges
- C. Privileges to sell newspapers, refreshments, etc. at specified place on government property
- D. Privileges to use public streets and docks not needed for general traffic
- E. Right-of-way privileges
- F. Scow trimming privileges

- G. Telephone booth privileges
- H. Track privileges
- I. Mineral, grazing, and timber rights on lands owned by the government

#### VI. Fees

- A. Fees for inspectional services
- B. Fees for technical and skilled services, other than inspectional
- C. Fees for legal or clerical services in departmental offices
- D. Fees for issuing certificates, copies of other instruments
- E. Application, examination, and qualification fees
- F. Fees for services in connection with corporate organization
- G. Pound fees
- H. Library and school fees
- I. Witness fees paid to government employees
- J. Fees for receiving and handling money or property for private persons or for other governments
- K. Fees for passing private bills in the legislature
- L. Surplus fees of minor civil divisions
- M. Fees for special services

#### VII. Fines, penalties and forfeitures

- A. Fines imposed by courts
- B. Fines imposed by departments
- C. Fines imposed by public institutions
- D. Penalties imposed on taxes not paid when due
- E. Penalties imposed on water bills not paid when due
- F. Penalties imposed for non-payment of other debts due the government
- G. Forfeitures
- H. Bond sureties

#### VIII. Escheats

#### IX. Grants and donations

- A. Grants for the United States
- B. Grants from the state
- C. Grants from the county
- D. Bequests
- E. Donations by private individuals

#### X. Rents

- A. Unimproved lands
- B. Real estate and buildings
- C. Halls and rooms in government buildings
- D. Public works
- E. Miscellaneous structures
- F. Property acquired at tax sales

#### XI. Interest, premium, and discount

- A. Interest on deposits
- B. Interest on securities owned (obligations of private corporations or other governments)
- C. Dividends on stock owned
- D. Interest on delinquent taxes
- E. Interest on delinquent water bills
- F. Interest on other delinquent debts due the government
- G. Premium on bonds sold

- H. Premium on exchange sold
- I. Discount on bonds purchased
- J. Discount on exchange purchased

## XII. Proceeds of sales of commodities and services

- A. Sales of government publications
- B. Sales of sundry articles and commodities
  - 1. Sales of manufactured articles
  - 2. Sales of commodities produced on government property
  - 3. Sales of licence tags and cards
  - 4. Sale of property unfit for use
  - 5. Sales of astray animals
  - 6. Sales of miscellaneous articles
- C. Hire of prison labour
- D. Support and care of institutional inmates
- E. Water service
- F. Heat, light, and power services
- G. Transportation services
  - 1. Civic car lines
  - 2. Ferries owned by the government
- I. Services of other public works and equipment
  - 1. Dredging city plants
  - 2. Shop and garage
  - 3. Collection and disposal of refuse, etc.
  - 4. Equipment earnings
  - 5. Comfort stations
  - 6. Public baths
- J. Stationery and printing
- K. Auditing public offices of minor civil divisions
- L. Special activities
  - 1. State fair
  - 2. Dances; other amusements; admission charges

## XIII. Royalties

- A. Royalties on shells collected
- B. Royalties on minerals produced
- C. Royalties on timber cut

## XIV. Pension assessments

- A. Police
- B. Firemen
- C. Teachers
- D. Other employees

This classification is one which has been prepared with special reference to the needs of the individual states and their political subdivisions. It has been worked out in considerable detail in order to include most if not all of the sources of revenue of these bodies. No one state, municipality, or other political subdivision receives an income from all the items mentioned. The classification of any particular government would be shorter than the one shown, due to the exclusion of items which do not figure in its revenue system. The general heads under which revenues are classified are, however, ones that can be employed by any state, city, or county. It need hardly be stated how advantageous it would be if all the

political divisions of a state, or all the states of a Union, should employ the same scheme of classification, since by so doing accurate comparisons could be made between the revenue systems and operations of those bodies.

**Classification of Receipts of the National Government.** The national government receives its income from sources so different from those of states and cities that no detail classification of the receipts of these bodies can be employed without modification. There is no reason why receipts cannot be grouped in substantially the same manner as is employed in the states and cities, so far as the main group headings are concerned. Remarkable as it may appear, the national government, prior to the adoption of the budget system, had never made any attempt to work out and employ any scientific or logical system of itemizing and classifying its receipts.

Prior to this date, 1921, the only tables purporting to give a comprehensive statement of the government's income were those contained in the "Annual Report of the Secretary of the Treasury" and the "Combined Statement of the Receipts and Disbursements, Balances, etc., of the United States During the Fiscal Year." These statements were radically defective from almost every point of view.

In the first place they were, and are of too summary a character. The statements in the Annual Report of the Secretary of the Treasury, for example, give only the total receipts derived from customs dues. In the Combined Statement the only additional information given is the classification of this total by places of deposit, posts, districts, and states, information which, though of importance from an administrative standpoint, is of little or no significance from that of the sources from which the government derives its income. If one desires to secure information regarding receipts from customs dues according to the articles or classes of articles upon which such dues were paid, he is forced to turn to the "Annual Report of the Foreign Commerce and Navigation of the United States," published by the Bureau of the Foreign and Domestic Commerce of the Department of Commerce, and here he will find the figures given by calendar years instead of fiscal years. It is, thus, impossible to use them as supporting details to the totals given by the Secretary of the Treasury in his reports.

Again, the only information given in the Annual Report of the Secretary of the Treasury regarding internal revenue receipts is the total of such receipts, classified under the two very general heads of: (1) Income and excess profits taxes, and (2) miscellaneous. In the Combined Statement the only additional information given is a showing of the total for each of these two classes, classified by internal revenue districts and states. If one

wishes information regarding the receipts from each of the large number of the different taxes falling under this head, he is compelled to resort to the Annual Report of the Commissioner of Internal Revenue, and here he will find the figures given on the basis of collections instead of deposits in the treasury, with the result that the total does not correspond with the total given by the Treasury Department in either of the reports that have been mentioned.

What is true of customs receipts and internal revenue is more or less true of all the other sources from which the government derives its income.

Finally, as already stated no distinction is made between revenue and non-revenue receipts, a defect which of itself almost destroys the value of such information as is given.

The Bureau of the Budget, in preparing the statements to be included in the budget which is submitted to Congress, has sought to do what it could in the way of correcting the failure on the part of the regular financial reports to give proper information regarding the government's income. It prepares, as one of the most important statements contained in the budget, a statement in which the attempt is made to set forth the receipts of the government, classified under the more important heads. This statement, while representing a great improvement over anything ever before attempted, is, however, far from satisfactory. A fully satisfactory statement cannot be prepared until the accounting system is reorganized so as to make the distinctions that should be observed and present the details that are at present unobtainable. Fortunately, the Treasury Department and the General Accounting Office, to which have been given the responsibility with respect to the system of accounting of the national government, fully appreciate the need for so modifying the accounting system now in use as to permit the securing of information regarding receipts in proper detail, and from these details of preparing statements that will show total receipts properly classified and with a proper distinction between revenue and non-revenue receipts. Following is a suggested summary classification of receipts:

## I. Revenues

1. Taxes
2. Fees
3. Fines, penalties, forfeitures, etc.
4. Interest
5. Dividends
6. Discount, exchanges, and seigniorage
7. Rent of public buildings and grounds
8. Public domain

- 9. Sale of land and buildings
- 10. Sale of miscellaneous property
- 11. Sale of products and services
- 12. Gifts and contributions
- 13. Revenue-producing enterprises (net)
- 14. Miscellaneous
- Total Revenues
- II. Non-Revenues
  - 1. Realization upon assets.
  - 2. Borrowings
  - 3. Trust fund receipts
  - Total Non-revenues
  - Grand total

In this classification, receipts from sale of land and buildings, and miscellaneous property are treated as revenue receipts, since the national government pursues the wise policy of providing for the purchase of all property of this character from current income and treating such expenditures as a part of current expense, also because under the present accounting system of the national government such property expenditures are not capitalized but are treated as a part of the expenses of current operations. This being so the receipts resulting from the sale of such property are now treated as revenue instead of non-revenue, which would be the case if such receipts were credited to the fixed property account upon sale. This statement should, of course, be supported by another statement, setting forth in detail the items under each of the general heads shown.

### Classification of Revenue Receipts by Organization Units.

The great bulk of the revenues of a government are collected by the comparatively few organization units having the special function of collecting taxes and other public dues. Many other organization units, however, receive by no means negligible sums as an incidental feature of their operations. These sums may, for the most part, be deemed to be offsets or compensating items to the cost of operating such services. It is desirable, therefore, that the extent to which each organization unit is responsible for such receipts should be known in order to determine the extent to which the service is self-supporting, or at least the net cost that is involved in maintaining it. It is a matter of interest and no little importance to know, in the case of the national government, that the cost of maintaining and operating the Patent Office is more than met by the fees that are collected in connection with the issue and regulation of patents, and that the State Department receives in the form of passport, consular, and other fees an amount sufficient to meet

almost its entire cost, including the diplomatic and consular services in the field. A statement showing revenue receipts, classified by organization units, thus, not only gives valuable information but it also tends to stimulate the services to make as good a showing as possible.

**Classification of Receipts by Funds.** One of the most important facts that it is desirable to have regarding receipts, is the extent to which they are freely available for meeting government expenditures or the extent to which they must be devoted to specially designated purposes. To secure this information, receipts as they are received must be credited on the books to the funds to which they belong, and from these accounts a special statement should be prepared showing receipts classified by such funds. This can be done by preparing a statement showing in the stub the sources of income and in parallel vertical columns the amounts credited to each fund or class of funds, with a final column showing the receipts for all funds combined.

**Treatment of Receipts of Revenue-producing and Supply Services.** Of the fund distinctions that should be observed in reporting government income, that of distinguishing clearly between the income of revenue-producing and supply services financed by working capital or revolving funds and of the general government is of such special importance that a few further words regarding it should be said. As has been pointed out, the prime characteristics of revenue-producing and general supply services are that their revenues and expenditures have direct relation to each other; that in principle, at least, the effort should be made to make them self-supporting; that their financial system should be such that the extent to which they are self-supporting or produce a surplus may be clearly seen, and that the important feature of their operations from the standpoint of the general treasury is not their gross receipts and disbursements but the difference between the two, or the net result as represented by a surplus or deficit.

It follows that the gross receipts of such services should always be reported as receipts of their respective working capital or revolving funds and never as receipts of the general treasury. Only when such receipts exceed expenditures to such an extent that repayments from the working capital or revolving fund to the general fund can be made, should the operations of these services be reflected in any way in the statement of receipts of the general treasury. In such cases the receipt will appear as one from the working capital or revolving fund rather than as one from the direct operations of the service.

## CHAPTER XL

### DATA REQUIRED REGARDING EXPENDITURES

The need for comprehensive and detailed information regarding expenditures is, if anything, more imperative than information regarding financial condition and revenue. Without such information it is impossible for those in charge of operating services to exercise current control or for the legislative branch to satisfy itself that its grants of money have been properly and efficiently expended or to make intelligent provision for future needs. The problem of securing information regarding expenditures is somewhat more complicated than in the case of receipts, due to the fact that it is essential that such data shall be presented from a larger number of distinct standpoints. These are:

1. Funds
2. Appropriation heads
3. Organization units
4. Functions and activities
5. Character
6. Object

**Classification of Expenditures by Funds.** The need for carefully segregating all financial transactions according to the funds to which they relate has already been abundantly shown. It is of the essence of fund accounting that this should be done. In the same way that the reporting system of a government should provide for separate statements showing the condition and receipts of each fund separately, so a separate showing should be made for the expenditures of each fund. This done, consolidated statements of total expenditures by classes of funds should be prepared. The scheme of classification of funds for this purpose should naturally be the one employed in presenting data regarding financial condition and receipts.

**Classification of Expenditures by Appropriation Heads.** Appropriation heads represent the specification made by the legislature of the purposes to which the money voted shall be devoted, together with the limitations as to the amounts to be spent for each purpose. The reports of the government should show expenditures itemized and classified according to such heads in order that the legislature may assure itself that its orders have been faithfully carried out. In presenting these data it is desirable that expenditures shall be shown in comparison with the appropriations themselves, so that the information will be available regarding the



extent to which the grants made by the legislature have actually been availed of. The scheme of classification of appropriation heads will naturally follow that employed in the budget or the appropriation acts representing action upon the budget.

In making appropriations the legislature usually specifies, and should specify, the particular fund from which each appropriation item shall be made. As a result the various appropriation items constitute sub-heads under the several funds, in so far as these are recognized. In the case of most of the special funds, appropriation items correspond to the fund designation, and the appropriations are sometimes made by a permanent statute rather than by one of the regular appropriation acts.

In statements showing expenditures on the basis of appropriations, the expenditures should be shown in comparison with the amounts appropriated, indicating the extent to which the amounts appropriated have been expended and obligated.

**Classification of Expenditures by Organization Units.** The third standpoint from which it is desirable to have data regarding expenditures is that of organization units. It is not only important, but essential, that accurate information shall be available regarding the cost of maintaining and operating each branch, service, or subdivision of a service which has a clearly recognized status and function. Information should, thus, always be at hand regarding the expenditures of each field station, such as a lighthouse, the total for all stations falling in the same class, such as the total for all lighthouses, the total for an entire service, including the central office at the seat of government, the total for all services under the jurisdiction of a department, the total for all departments, and, finally, the totals for the entire government, classified by its great branches of legislative, judicial, executive, etc. Without such data it is impossible definitely to locate responsibility for expenditures, to exercise control over actual operating units, to secure efficiency and economy through the comparison of relative costs for similar or analogous units, or intelligently to prepare estimates or make appropriations for future needs.

The scheme of presentation of expenditures classified by organization units will naturally follow the organization of the government to which the expenditures relate. There are certain expenditures which, though made by organization units, do not constitute a part of the cost of maintaining or operating such units. Examples of such expenditures are disbursements for the payment of interest on the public debt, pensions etc. There is an advantage in segregating these expenditures and showing them as appropriate items under a general heading, with some such designation as "non-organizational."

**Classification of Expenditures by Functions and Activities.** That it is of interest and value to know the total of the expenditures of a government classified according to the purposes for which they were made, is evident. Were all organization units unifunctional, in the sense that they had as their duty but the performance of a single function or activity, and were all the functions or activities of a like character performed by a single service, the reporting of expenditures according to organization units would at the same time show the expenditures of the government, classified according to the functions engaged in or the specific activities performed. This condition, however, by no means uniformly obtains. Not only are there, in most national governments at least, a number of different services performing the same general function, but there are also many services performing more than one function, and even where they are of a unifunctional character, they engage in a number of different activities in performing this function.

It results from this condition of affairs that information regarding expenditures of a government from the standpoint of functions and activities can only be secured where a careful study is made of the specific work done by all government services and a system of accounts installed which will call for the setting up of an account with each activity thus distinguished. If this is done it will, of course be possible for each service to report its expenditures classified according to its activities. With this information in hand the central accounting office can combine these returns in such a way as to show the total expenditures of the government classified not only by specific activities but also by groups of related activities.

It might seem at first sight that no great difficulty would be encountered in determining the functions and activities of a government and in making provision for the recording and reporting of expenditures accordingly. In point of fact, the problem is one of no little complexity. If it is to be successfully worked out, account must be taken of a number of factors the nature of which has apparently received but little attention in studies thus far made of the problem of public accounting.

The first of these is the distinction that exists between: (1) Functions, (2) activities, and (3) operations.

By "function" is meant the general end or purpose that the work engaged in has in view, for example, national defence, the promotion of the public health or education, the development of the natural resources of the country, the regulation and control of public utilities, the administration of justice, etc.

By "activities" is meant the particular lines of work engaged in order to perform a general function. For example, the Bureau

of Education of the national government has the function of promoting public education. In order to perform this function it engages in certain specific lines of work, such as the prosecution of state, municipal, and county educational surveys, the study of problems of higher education, the collection and publication of statistics of school finance, etc. Each of these lines of work constitutes one of the activities conducted in performing its general function.

By "operation" is meant work of a particular character performed in carrying on an activity, for example, the planning of an educational survey, the collection of data, the compilation of data and their presentation in the form of a report, the printing and publication of reports, etc.

The first step involved in working out a scheme of presentation of expenditures classified from the standpoint of the end sought or accomplished is the recognition of these distinctions between function, activity, and operation. Primarily the effort should be made to work out a statement and classification of the functions of government. This done, subordinate statements can be prepared showing the activities and, if such detail is deemed desirable, the operation in performing each activity. Generally speaking, the factor of operation is only of importance to the operating services, which desire to obtain an analysis of the cost involved in performing their activities.

It is desirable that the classification of functions and activities shall as far as is practicable be uniform as between political bodies of a like character. Probably no class of information regarding public finances is more desired by the public than that which will permit of a comparison of the financial operations of different governments from this standpoint. Such a comparison cannot be made with accuracy unless the governments whose operations are to be compared make use of substantially the same scheme of classification. The field of operations of central, state, municipal, and local governments are so dissimilar that it is impossible to prepare a single classification that, as regards its details, will meet the needs of those several classes of governments. It ought not to be impossible, however, for each class of government to agree upon a classification for general use and to have these several classifications fairly uniform as regards the main groupings.

The Bureau of the Census has taken the lead in seeking to secure comparable data on the basis of functions and activities of the expenditures of the states and cities. Following is a reproduction of the classification employed by it in its annual volume on

Financial Statistics of the States, in which only the more important group headings are indicated.

# STATEMENT OF EXPENDITURES CLASSIFIED BY ACTIVITY

## I. GOVERNMENTAL COSTS

### 1. General Government

1. Legislative
2. Chief executive offices
3. Finance offices and accounts
4. Law offices and accounts
5. Other general executive offices and accounts
6. Judicial
7. Elections
8. General government buildings

Total: General Government

### 2. Protection to Persons and Property

1. Supervising department
2. Police department
3. Fire marshal or commissioner
4. Militia and armouries
5. Fish and game warden
6. Regulation for protection to person and property
7. Other protection to person and property

Total: Protection to Person and Property

### 3. Development and Conservation of Natural Resources

1. Agriculture
2. Forestry
3. Fish and game
4. Geological survey
5. Other development and conservation

Total: Development and Conservation of Natural Resources

### 4. Conservation of Health and Sanitation

1. Health department administration
2. Vital statistics
3. Prevention and treatment of communicable diseases
4. Conservation of child life
5. Food regulation and inspection
6. Regulation of professional occupations
7. Other conservation of health
8. Sanitation

Total: Conservation of Health and Sanitation

### 5. Highways

1. Supervising department
2. Roadways
3. Other highway structures
4. Waterways
5. Repair and construction for compensation

Total: Highways

### 6. Charities, Hospitals, and Corrections

1. Supervising departments
2. Outdoor poor relief
3. Poor in institutions
4. Care of children
5. Care of blind, deaf, and mute
6. Other charities
7. General hospitals

8. Special hospitals
9. Correctional institutions for adults
10. Correctional institutions for minors
11. Pardon and parole boards and officers
- Total: Charities, Hospitals, and Corrections
7. Education
  1. Schools
  2. Libraries
  - Total: Education
8. Recreation
  1. Educational recreation
  2. General recreation
  3. Parks and reservations
  4. Monuments and monument commissions
  - Total: Recreation
9. Miscellaneous
  1. Pensions and gratuities to former state employees
  2. Relief to special classes
  3. Administration of public trust and investment funds
  4. Judgments and losses
  5. Unclassified
  6. Undistributed
  - Total: Miscellaneous
10. Public Service Enterprises
  1. Docks, wharves, and landings
  2. Canals
  3. Irrigation systems
  4. All other enterprises
  - Total: Public Service Enterprises
11. Interest

#### TOTAL: GOVERNMENTAL COSTS

## II. NON-GOVERNMENTAL COSTS

1. Debt
2. To other civil divisions
3. For objects of private trust
4. For investments purchased
5. For increase of storehouse supplies
6. Outlay payments offset by receipts
7. Payments for accrued interest, in error, and for corrections of erroneous receipts
8. General transfers

#### TOTAL: GOVERNMENTAL COSTS

#### GRAND TOTAL

As regards its general character, this statement affords an excellent view of the expenditures of the state governments from the standpoint of activities. It is believed, however, that it can be improved in certain minor respects. For example, the item "Judicial" appearing under "General government" should be made a group heading co-ordinate with "General government." It represents a distinct service performed for the public rather than one having to do with the operation of the government as an institution. The statement further errs in attempting to take account of organization

units. For example, the attempt should not be made to indicate under "Protection to person and property" the item "Fish and game warden." The expense for that office should be a part of item "Fish and game." appearing under "development and conservation of natural resources."

The foregoing classification may be compared with the following classification used by the Bureau of the Budget in presenting information regarding the national finances in Part I of the Budget.

#### A. GENERAL FUNCTIONS

1. Legislative
2. Judicial
3. Executive
4. General Administration
  1. Financial Administration
  2. Government Supply Services
  3. Public Buildings Service
  4. Civil Pensions and Allowance Administration
  5. Institutional and General Expenses

Total: General Administration

TOTAL: GENERAL FUNCTIONS

#### B. MILITARY FUNCTIONS

1. National Defence
2. Special War Agencies
3. Military Pensions; Retirement Pay; Annuities, World War Allowances and Life Insurance Claims

TOTAL: MILITARY FUNCTIONS

#### C. CIVIL FUNCTIONS

1. Foreign Relations and Protection of American Interest Abroad
2. General Law Enforcement
3. Provision for Control of Currency and Banking
4. Administration of Indian Affairs
5. Administration of Public Domain
6. Promotion and Regulation of Commerce and Industry
7. Promotion, Regulation, and Operation of Marine Transportation
8. Promotion and Regulation of Land Transportation
9. Postal Service (Deficiency in Postal Revenues)
10. Promotion and Regulation of Agriculture
11. Promotion and Regulation of Fisheries
12. Promotion of Labour Interests
13. Immigration and Naturalization
14. Promotion of Public Health
15. Promotion of Public Education
16. Science and Research
17. Public Works
  1. General supervision, design, and overhead
  2. Public improvements
  3. Government plant additions
- Total: Public Works
18. Revenue-Reproducing Enterprises

19. Local Government
20. Relief Expenditures

**TOTAL: CIVIL FUNCTIONS**

**D. NON-FUNCTIONAL EXPENDITURES**

1. Refunds, Losses, Contingencies, and Miscellaneous
2. Seed Grain Loans (Investments)
3. *Fixed Debt Charges*
  1. Public debt retirements payable from ordinary receipts
  2. Interest on the public debt

Total: *Fixed Debt Charges*
4. Trust Funds
 

Total: Non-Functional Expenditures

Total: Expenditures from the Treasury, Warrant Basis

**E. ADJUSTMENT BETWEEN CASH EXPENDITURES AND WARRANT DISTRIBUTION**

Total: Expenditures from the Treasury, Cash Basis

Add Postal Service Expenditures, Payable from Postal Revenues

**TOTAL EXPENDITURES**

**Classification of Expenditures by Character.** The importance of distinguishing between those expenditures having for their purpose to meet expense and those for capital outlay has been pointed out in consideration of the operating statement. The term "character" has been generally adopted to designate this distinction. It is important that this distinction should be observed in keeping the accounts and in presenting information regarding expenditures in the published reports.

**Classification of Expenditures by Object.** The final standpoint from which it is desirable to have information regarding the expenditures of government is that of the things purchased with the money expended, services, materials, or other, or, to use the technical expression, the "objects of expenditure." Data of this kind are required as a basis for the analysis of the nature of the expenditures required in order to carry on a given service or to perform a given activity or function, and as a means of determining the efficiency and economy with which money is expended. No administrator can effectively control the expenditures of his organization, nor can the authority raising and voting the funds assure itself that the money granted by it is economically expended, without having such information.

For the fullest use of data of this kind it is essential that all of the subdivisions of a service, and as far as practicable all of the services of a government, shall provide for the recording and reporting of its expenditures according to a uniform plan. This is necessary in order that accurate comparisons may be made of the expenditures of different units of organization. For example, the

most effective way of checking up the relative efficiency and economy of field stations of a like character, such as lighthouses, offices of collectors of internal revenues, post offices of the same class, etc. would be by comparing their expenditures from this standpoint. This can only be done where all units report their expenditures by the same items or objects of expenditure. To secure such uniformity, it is necessary that some central authority, preferably that having responsibility for prescribing the character of accounts and reports to be kept and rendered, shall work out a standard classification of objects of expenditures the use of which by all accounting officers shall be obligatory.

The importance of having such a standard scheme of classification of objects of expenditure has long been recognized by the more important private corporations of the country and, within recent years, by a number of states and municipalities which have taken steps to put the administration of their financial affairs upon a scientific basis. The use of such a classification by all services of the national government was prescribed by the General Accounting Office in 1922.<sup>1</sup> These several classifications, though based upon the same general principles, do not conform with each other as regards articles. For illustrative purposes there is reproduced below the classification employed by Hawaii, which is believed to be as satisfactory as any that has been devised.

## STATEMENT OF EXPENDITURES CLASSIFIED BY OBJECT

### I. EXPENSE

- Personal services
- Supplies
- Materials
- Communication service
- Travel expenses
- Transportation of things (service)
- Printing and binding (service)
- Advertising and publication of notice (service)
- Furnishing heat, light, water, and power (service)
- Rents (rentals)
- Repairs (contractual services)
- Special and miscellaneous current expenses
- Depreciation
- Interest
- Pensions, retirement salaries, and annuities
- Grants, subsidies, and contributions
- TOTAL EXPENSE**

### II. OUTLAYS

- Equipment
- Land and interests in land

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(1) General Accounting Office Bulletin No. 1, May 11, 1922.



Structures and permanent improvements to land—including fixed equipment (contractual services)  
 Stores purchased for resale  
 Public debt redemptions  
 Investments (includes working capital funds)  
 Repayments of deposits  
 Refunds, awards, and indemnities

#### TOTAL OUTLAYS

#### TOTAL EXPENDITURES

It should be noted that, though desirable, there is not the same necessity for uniformity between governments as regards classification by expenditure of objects as exists in the case of functions and activities. In the statement that has been reproduced, only the main heading of the classification have been given. Most classifications provide for a subclassification that furnishes information regarding objects of expenditure in much greater detail. It is possible to carry the itemization to almost any extent so as to show, for example, expenditures for individual items, such as ink, lead pencils, etc. How far the itemization should go in practice, is a matter of expediency and the practical value of the detail data when secured.

**Relation of the Several Bases of Classification.** In analyzing the expenditures of a government, any one of the bases described above may be used without reference to any of the others. Thus, separate statements may be prepared showing the expenditures of the government or any organization unit, classified by these several methods. But expenditure statements formed on only one basis of classification will furnish very incomplete information, and whichever basis of classification may be the primary, a second, and sometimes a third or fourth classification on other bases, will also be needed in order that the application of expenditures may be more definitely known. Thus, if the primary classification is by organization units, it will be desirable to analyze the expenditure for each unit by general character and objects, and also so far as practicable by functions and activities, in order to show fully the purposes to which and the manner in which the money was applied. The subsequent development of the analysis will depend largely on which basis is used as primary, and the order in which other bases of classification are applied. It is believed, however, that the most satisfactory results will be secured if the primary classification is by organization unit. For each such unit, expenditures may be further classified by character and object, by fund, and so far as practicable by function and activity. General statements can then be prepared for the larger organization units and for the government as a whole on each of the other bases of classification.

If information as to expenditures is made available on these several bases of classification, the operations of the government may be studied and planned from a number of different viewpoints. It will be possible to determine, not only the costs and needs of a particular service, subdivision of a service, or group of such subdivisions, but also the several elements in this cost, or needs, in terms of activities performed or character and objects of expenditure. By changing the arrangement, the costs and needs of particular activities or classes of activities may be examined in relation to the services engaged in their performance, or total expenditures may be analyzed according to the character or object of expenditure, classified by services responsible for them. In short, the expenditures of the government may advantageously be examined, considered, and compared in accordance with any of these bases of classification.

**Feasibility of Securing the Detailed Statements of Expenditures Suggested.** Apprehension may be felt that desirable as is the detailed data above suggested from a theoretical standpoint, the attempt to secure such information involves so complicated a system of bookkeeping and so much work that a government is not warranted in making the effort. This is not so. Under any accounting system, governments are compelled to keep accounts of expenditures by funds and appropriation heads. Where appropriations are made by major organization units, as they usually are the accounting offices find little difficulty in keeping an account of the expenditures of these appropriations by subordinate organization units. The chief change in existing practice that is required is the working out and use of a classification of expenditures by functions, character, and objects. It has already been pointed that a considerable number of states and municipalities and the national government have within recent years adopted and are now successfully using accounting systems calling for information regarding expenditures, classified according to character and objects. The revised accounting system for the operating services of the national government, not being installed by the General Accounting Office, calls for all this information. If it is feasible to secure such data in the case of so large an organization as the national government, no serious difficulty should be encountered in doing the same for the states and their political subdivisions.<sup>2</sup>

**Unit Costs.** In addition to the financial data above described it is desirable to have information showing the relation of expenditures to work performed or results achieved. It is, thus, of value

<sup>2</sup>That this is feasible has already been demonstrated by the installations made in territorial and county and city and county governments of Hawaii by the Institute for Government Research.

to know, not only the expenditure for the construction of roads, but also the length of road constructed, and by a comparison of the two figures, the cost per unit of road built. It is desirable to know not only the total cost of maintaining institutions but also the cost per inmate cared for in such institution. It is to be presumed that the operating services will, when the nature of the work is of a character to render it desirable, maintain records of their operations and work. One of the reasons why detailed accounts should be kept of financial transactions is the basis that is thereby laid for the production of unit cost figures. Data regarding these unit costs, for the most part, find a place in the administrative reports of the operating services rather than in the financial accounts, strictly speaking.

## CHAPTER XLII

### OUTLINES OF ACCOUNTING PROCEDURE

Although the present work makes no pretence of covering the field of accounting technique, it is nevertheless thought desirable that the student of politics and the general administrator, for whose use this study is intended, should have at least a general idea of the means employed in securing and presenting the data, which, it has been pointed out, should be available regarding the financial condition and operations of governments.

**Steps Required in Securing Financial Data.** Analysis of the problem of securing financial data shows that three distinct steps or operations are required: (1) The execution of certain documents giving the original record or evidence of transactions effecting financial condition; (2) the recording in what are known as books of account of the data contained in such documents in such a way as will bring together under appropriate heads the record of all transactions of the same character so that their total results may be known; and (3) the presentation of these results in their proper relations and in relation to the undertaking as a whole in what are known as financial statements and reports. It will be seen that these three classes of records or documents, taken in their inverse order, support each other. The financial statements and reports constitute the final showings. These are supported by, and may be justified by reference to, the books of account, and the latter in turn are supported by, and may be justified by reference to, the individual documents giving the original record for evidence of the several transactions.

Obvious as is this relationship when stated, it is worth describing, since it serves to bring out the unity of the problem and the several features of the problem of organizing an accounting and reporting system upon which emphasis has already been laid. The first of these is that it is the duty of the directing and administering authorities, as distinguished from the accountant, to determine the character of the information that is desired by them for administration and control purposes. This having been determined, it then becomes the duty of the technical accountant to determine the system of accounts and the procedure necessary for producing this information, and the scheme of original financial documents that will be required in order to secure the data required in the first instance.

**Original Record Financial Documents.** Although, as has been pointed out, the starting point in the organization of a system of accounts is that of determining the final or summarized data required, in the actual operation of this system, the first act to be performed is that of the execution of the original documents giving the evidence of the several transactions which are used by the bookkeepers in making the necessary entries in the books of accounts. These documents, it should be noted, have a number of functions to perform which should be carefully distinguished if the part they play in accounting and administration is to be recognized and appreciated.

In the first place they furnish the information essential for the operation of an accounting system. They should be of a character, therefore, that will give all the facts that are required in order that the accounts may furnish the data that it has been determined should be secured regarding financial operations. If for example, the document is one evidencing an expenditure, and it is desired to know total expenditures classified according to organization units, activities, character, or objects, it must call for a recording of the transaction in such a way that these facts may be determined. As in the case of a statistical inquiry no fact can be brought out in the final presentation that is not contained on the original schedule or other document.

Secondly, these documents constitute the original or legal evidence of the transactions to which they relate. As has been pointed out, one of the prime functions of an accounting system is to secure fidelity on the part of all officers having the handling of funds. The only way in which such officers can prove their fidelity is by the production of documents justifying their acts. The ordinary receipt, or voucher, to use the more technical term, is the best illustration of a document furnishing evidence of this kind.

Thirdly, they furnish the information needed in order to ensure that all legal or other requirements that have been established as a means of ensuring control or of safeguarding the receipt and expenditure of funds have been complied with. As a general thing the officer charged with the actual expenditure of cash is only authorized to make disbursements upon certain conditions or upon requirements being met. The most important of these usually is that the expenditure has been duly authorized by some superior officer. The procedure may be that the latter only acts upon a formal request emanating from some inferior officer. Whatever the requirements, it is a function of the original record document to show that these requirements have been met. This is shown by the signature of the authorizing officer to a certificate statement

appearing on the document itself or by supplemental documents referred to or attached to the document as supporting papers. It not infrequently happens, therefore, that a number of documents are required as original documents evidencing and justifying a transaction.

These documents, thus constitute the foundation upon which the whole accounting system must rest. Too great care cannot be taken in devising their form and the procedure to be followed in making use of them. The skill with which this phase of the problem is worked out determines in no small degree the effectiveness of the safeguards to be thrown around financial acts and the economy and efficiency with which this class of administrative duties is performed.

**Expenditure Documents.** It would be going beyond the scope of the present work to attempt anything like a detailed consideration of the nature and function of the many kinds of original record documents required in the administration of the financial affairs of a large undertaking. In view of the fact that, in the case of governments at least, interest centres chiefly in the control of expenditures, it is thought proper to indicate, by way of illustration, some of the more important expenditure documents made use of, their general character, and the purposes served.

To understand the nature of the documents required in order to secure a proper record of expenditure operations, it is necessary to appreciate, first of all, that this apparently simple operation includes, in fact, a number of distinct steps, and that the record must show that each of these steps has been taken in accordance with the laws or regulations that may have been adopted for the purpose of controlling this branch of administration.

The first step leading to an expenditure is that of determining and making known the need for the service or thing to be secured. This step is manifestly one that must be taken by the person having responsibility for the utilization of the service or thing when secured. In a large undertaking this person is usually the head of some working division. The document through which he makes his wants known is usually designated as a "requisition." In a small concern the head of a working division may go personally to the proprietor or general manager and state his needs. In one of any size, this is not feasible or desirable. In such an undertaking the person having responsibility for the authorization of hiring, purchasing, or contracting needs certain information regarding past operations and present conditions in order to act intelligently. For control purposes he also needs a permanent record of the facts which induced him to act. A requisition should, thus, call for and furnish all the facts needed by the officer

acting upon it. These facts will vary according to circumstances. If the contemplated expenditure relates to supplies, the requisition may indicate not only the quantity, quality, and estimated cost of the articles desired but also the quantities previously purchased, on hand, etc.

The next step consists of acting upon this request or requisition; that is, authorizing the expenditure. This act is usually performed by some superior administrative officer. It is essential, if the affairs of an undertaking are to be efficiently and economically conducted, that this power to authorize the contracting of obligations shall be vested in a relatively few definitely determined, responsible officers. These officers may not themselves have first hand knowledge of service or supply needs; nor need they themselves attend to the letting of contracts or the making of purchases. Their function is that of approving and of taking final responsibility for administrative act. A well-devised requisition system enables them, however, to act with knowledge and, if need be, to hold subordinates responsible for the recommendations approved by them.

Following the approval of the requisition, the next step is that of executing the necessary order for the purchase of the article or articles called for by the requisition. This document is known as a "purchase order." It goes to the dealer from whom the articles are to be obtained. At this stage the process may be rendered more complicated by the requirement that competitive bids shall be called for and that the contract shall be awarded to the dealer offering the most favourable terms. In the case of most governments the law or administrative regulations require this procedure in the purchase of articles, the total value of which exceeds a certain sum. When this requirement exists, provision is made for a certain procedure that must be followed in calling for bids and in making the award. Often, provision is made for a special board whose duty it is to pass upon bids submitted and determine to which bidder the contract shall be given. If this requirement exists, provision must be made for the execution of documents that will show that all legal requirements in relation thereto have been complied with.

The next step consists of the receipt and checking up of the goods ordered. The dealer in forwarding the articles sends along with them or under separate enclosure, a document known as an "invoice." The purpose of this document is to inform the purchaser of the goods sent, their quantity, and the price. In popular parlance, this paper is usually known as a bill. In important business transactions the invoice may, however, give more information than is ordinarily afforded by the bill that is rendered to an indivi-

dual. It may describe the articles in greater detail, refer to the purchase order for purposes of identification, etc. Upon the receipt of the invoice and goods, it becomes the duty of some officer of the undertaking to verify its accuracy by checking it against the purchase order, to inspect the goods for the purpose of verifying their quantity and quality, and to execute a certificate that they are satisfactory.

It is only after the foregoing steps have been taken and documents evidencing the fact have been executed, that the operation of expenditure proper is entered upon. The officer entrusted with the performance of this duty, the treasurer, disbursing officer, or paymaster, has as his first duty to see that all of these several steps have been duly taken. This he does by the inspection of documents that have been described, which constitute what may be termed the papers in the case. Having done this, and having found everything satisfactory, he executes a document known as a "voucher." This document follows and gives the information contained on the invoice, though in a more summarized form, the invoice being attached to it as a sub-voucher or supporting document. This voucher may also contain additional information, as, for example, an indication of the organization unit, activity, or other head to which the expenditure is to be charged on the books of the undertaking. This voucher is sent to the dealer furnishing the goods to be signed by him as an acknowledgment of the receipt by him of the money sent in settlement of the claims to which the voucher refers. It is not necessary that there shall be a separate voucher for each invoice; one may cover any number of separate purchases and corresponding invoices. Sometimes the dealer is required to receipt and return the voucher before payment is made. In other cases the cheque in payment of it is sent along with the voucher. A practice that is now coming more and more into general use is that of making use of what is known as a "voucher-check." This consists of a cheque which contains a special section describing the character of the claim to be settled by it and, thus, serving the purpose of a voucher. The undertaking issuing it receives it in due course when the bank returns to it all paid cheques as its account is periodically balanced.

In the foregoing, no direct reference has been made to the accounting feature of expenditure transactions. Strictly speaking, the work of the accountant does not begin until the receipt by him of the expenditure documents after they have been duly executed. Up to this point his only responsibility is that of seeing that the forms made use of are of a character that will enable him to keep the accounts that have been determined upon and that a proper procedure is followed in their use. If the accounting system is one resting upon a cash basis only: that is, one that takes no account



of accruals, the accountant's work only begins with the receipt of the voucher, duly executed and accompanied by the necessary supporting papers, or of the papers alone where, as is often the case the work of preparing and sending out the voucher is made a part of his duties. It is his duty to satisfy himself that all requirements have been met. Having done so he draws his cheque in payment of the voucher or signs a warrant or other document, directing the issue of such cheque by the paymaster or the disbursement of cash. Following this, he makes from the voucher or from a retained copy of the voucher the necessary entries on his books of account, or turns over the papers to a bookkeeper, whose duty it is to make such entries.

When use is made of an accrual accounting system, it is necessary that the accounting officer shall intervene at an earlier stage of the proceedings. The purpose of this system being that of recording liabilities as soon as they accrue, it is necessary that the accounting officer shall be furnished with a copy of every purchase order, since the execution or transmission of that document results in setting up a liability, thus encumbering the resources of the undertaking. Upon the receipt of a purchase order, the accounting officer makes the proper entry upon his books. Later, when the receipted voucher is received, he makes the entry showing that this liability has been liquidated by payment and the encumbrance is discharged.

In the foregoing no attempt has been made to enter into the details of procedure. All that has been sought has been to analyze this problem of administration for the purpose of showing its several elements. It is evident that several copies will have to be made of most of the documents described. The requisitioning officer, for example, will want to retain a copy of all requisitions sent forward by him. The approving officer may desire to do the same. One of the problems presented in working out a proper purchasing system is that of determining the number of separate documents required and the persons to whom such documents or copies of them should go.

A point that it is wished especially to emphasize is that responsibility for the adoption of a proper system and its subsequent operation rests primarily upon the general administrator, though the advice of his accounting officer may prove of great value to him in meeting this responsibility. Furthermore, it is to be noted that the work involves the participation of a number of officers, the working director, who determines needs in the first instance and makes out and transmits the requisition; the general administrator, who approves the requisition; the purchasing agent, whose duty it is to secure the articles called for; the inspection officer

whose duty it is to examine the goods when received, check them against the purchase order, and verify their quantity and quality; the disbursing officer or paymaster, whose duty it is to satisfy himself of the justice of the claim and that all legal or administrative requirements have been met and to make payment or order payment to be made; and the bookkeeper whose duty it is to record the transactions in his books of account. It may seem that there is a lot of red tape or paper work to be gone through with in performing a comparatively simple operation. One of the purposes of this analysis, however, has been to show that no one of these steps can be dispensed with if adequate safeguards are to be thrown around the expenditure of funds and each officer is to possess the information that he must have if he is efficiently to discharge the duties resting upon him.

Payments for personal services in the form of salaries and wages constitute another important class of expenditures. Though the same principles should govern in determining the amounts due and the payment of the sum found to be due, a different set of documents and procedure is required. In a large undertaking, such as a government, it is desirable that personnel requirements, that is, the number and character of officers and employees needed, shall be determined with as great care as material needs. Furthermore, just as it is advantageous for a large concern to entrust to a special officer, usually known as a purchasing agent, the actual purchasing or letting of contracts for material objects such as material, supplies, equipment, etc., so it is found advantageous to entrust the work of securing and of subsequently keeping the records of all employees to a special officer known in a government as an appointing officer and in private undertakings by various designations. The whole problem of recruiting, classifying, determining the compensation, promoting, directing, and controlling the attendance and other acts of employees constitutes one of the most important and difficult branches of administration and is elsewhere handled in the work. Here we are only concerned with procedure and the documents required in compensating them for their services.

Here, as in the case of materials and supplies the first step consists in the determination by the officers in charge of working units of their needs of personnel. This is made known by a requisition, which is submitted to and passed upon by the head of the service or some superior administrative officer having authority to act for him. It then passes to the appointment officer, chief of the division of personnel, or other officer whose duty it is to secure employees. In the case of many governments the civil service commission acts as a recruiting officer for many classes of personnel. In such cases the appointment clerk must secure employees

through this agency. The next step consists in the formal appointment of the persons selected and the designation of the compensation they are to receive. The promoting, shifting and changing of compensation of existing personnel constitute acts analogous to that of appointment in the first instance. On the basis of the foregoing there is then prepared a register, list, or set of cards of all persons employed, giving for each such essential data as name, position, rate of compensation, dates of employment, promotions, transfers from one position to another, etc.

The foregoing matters having been attended to, the next problem to be met is that of determining the extent to which each employee renders the service for which he is employed and the corresponding amount of compensation due him for the period for which payments are to be made. This is often a matter of great difficulty. Various means are employed, such as checking in and out of employees, time clerks, work cards, reports of division heads, etc. Whatever the system, the important thing to be determined are the presence of the employee on and during all working days and the amount of compensation due. In effect, an attendance and compensation account must be maintained for each employee. Negatively, assurance must be had that no person figures as a claimant for compensation whose employment has not been duly authorized. The padding of payrolls with the names of persons who have never been employed or who, if employed, have rendered no service less than that for which compensation is demanded, has been a frequent source of fraud and especially so in government undertakings. Such fraud can only be prevented in an undertaking of any considerable size by an observance of a procedure substantially conforming to the one that has been outlined. This procedure may be deemed to be an essential part of the system for the control of this class of expenditure.

In all undertakings compensation is paid at fixed intervals of time, usually weekly, biweekly, or monthly. The first step toward making such payment consists in the preparation of a payroll. This is a document listing all persons entitled to compensation and the amounts of compensation due them for the period to which it relates. This document in a large undertaking is usually prepared by the appointment officer from data contained in his records of appointments, promotions, transfers, etc., and reports made to him by heads of working divisions or other officers regarding attendance, work performed, etc. Its accuracy should be certified by him as being in accordance with his records and reports made to him. The next step consists of the signing of this payroll by the superior administrative officer as an evidence that the making of the payments called for are authorized by him.

The document then passes to the disbursing officer or paymaster who on the strength of this authorization makes the payment. The payroll is, thus, in effect a voucher. Evidence of the receipt of the money by the persons listed is secured by their signing the payroll or, when payment is made by cheque itself as returned through the bank making payment. The payroll can be so constructed as to afford information for accounting purposes other than that of the payment of cash. It may show the employees, grouped according to organization units, according to different classes of activities, etc. A distribution of the expenditures from these standpoints may be made directly from the payrolls by making the proper entries under corresponding accounting heads. When more detailed data is required, it may be necessary to instal a so-called cost-keeping system or resort to other means of assigning personal service expenditures to particular heads.

In the foregoing a description has been given of the general nature of documents and procedure required in handling two of the more important classes of expenditures. As has been stated this description has been given merely by way of illustration for the purpose of bringing out the importance of original record documents as the essential foundation upon which any accounting system must rest. Accounting, strictly construed, will not of itself either control the expenditure of moneys improperly or furnish information needed for administrative purposes. The major safeguards must be taken in respect to the execution of the original record documents. If these are adequate and the documents furnish all needed information, the work of recording and summarizing the facts can be reduced almost to the mechanical operation known as bookkeeping.

**Recording of Financial Data.** The second step involved in securing financial data consists of recording the detailed data contained in original documents in such a way that the general results of these individual operations may be seen. This work is performed by the chief accounting officer and his staff, use for this purpose being made of what are known as "books of account." These books are of various kinds, such as cash books, journals, ledgers, etc. Of these the last named is, from the standpoint of the administrator at least, the most important, since it is in this book that an "account" is opened with each subject concerning which it is desirable to have information. For example, in the appropriation ledger of a government, an account is opened with each appropriation head, which is credited with the total appropriation made for the purpose indicated and debited from time to time with the authorized encumbrances or payments chargeable against such appropriation. In like manner, separate accounts must be opened

up in the ledger with each organization unit, activity, object of expenditure, etc., concerning the cost of which it is desired to have information.

It is manifest from the foregoing that the datum contained in an original document, such as a voucher, will have to be entered in a number of different places in the ledger as it affects a fund, an appropriation head, an organization unit, activity, etc. The operation of making these entries is known as "posting" or "posting to the ledger."

**Preparation of Financial Statements.** The third step consists in drawing off from the books of account, and particularly the ledgers, the summarized data and presenting them in the form of statements giving the information furnished by them. The more important of these statements, the balance sheet and its supporting schedules, and the statement of operations and its supporting schedules have already been described and their general character and purpose made known.

**Cost Accounting.** A system of general accounts, if properly devised as suggested in the foregoing chapters, will furnish a large amount of information regarding what is known as "costs." It will reveal the cost of maintaining and operating the several organization units of a government or service, the cost of performing the separate functions or activities engaged in, the cost of the different objects or classes of objects of expenditures, etc. In the case of most government services all, or practically all, of the information that it is essential to have can be secured from the general books of accounts and financial statements. There are some cases, however, where it is desirable to have a somewhat more detailed analysis of costs, as, for example, the cost of performing the several operations involved in the execution of an activity of a particular job. When such information is desired provision has to be made for a special cost-keeping system, similar to the systems employed in private undertakings for gain. One method of obtaining such costs is that of "ticketing" each job and requiring each person rendering service in connection with it to report his time expended on it and of keeping an account of all materials used in connection therewith.

**Distinction Between Direct and Indirect Cost.** It would be manifestly out of place to attempt here any consideration of the problem of cost accounting. Mention may, however, be made of one factor, since it enters into that of determining costs through the general as well as a special cost-keeping system. This is the distinction between what is known as direct and indirect cost. Both

in a general accounting system and in a special cost accounting system, there are many expenses which are of a general character in that they relate to the operation of the enterprise as a whole rather than to a particular organization unit or activity. Among such general expenses the most important are those for general administration and the maintenance and operation of plant. These expenses constitute what are known as "general," "indirect," or "overhead." Those that can be directly charged to an organization unit or activity constitute "direct" costs. The figures produced by a general accounting system or a special cost-keeping system show, in the first instance, direct costs only. If it is desired to know the total cost, indirect as well as direct, of an organization unit, activity, or job, this can be obtained by allocating the indirect, or overhead, cost to the organization units, activities, or jobs according to some formula, such as the proportion that the direct cost of each unit bears to the total direct cost of all units.

## CHAPTER XLIII

### LEGISLATIVE CONTROL OF FINANCES: AUDIT

The dominant fact in administering the financial affairs of a government is that the legislative branch is the repository, in the first instance, of all authority in respect to the raising and expending of public funds. It is the body which determines what money shall be raised and, in general terms, at least, how this money shall be expended. Administrative officers having the duty of collecting, safeguarding, and disbursing this money are but the agents of the legislature for putting into effect its decisions. As the principal, it is the duty of the legislature to see that its agents perform their duties satisfactorily. This means that it must provide itself with some means by which it may currently supervise the operations of its agents and systematically review their acts, to the end that it may know how they have discharged the duties imposed upon them and, if necessary, hold them to accountability for any loss resulting from their misconduct or mismanagement of affairs.

**Evolution of Financial Control in England.** Patent as this duty on the part of the legislature must be, it is one which has been definitely established only within comparatively recent years. "It is a remarkable fact that, though the idea of supreme control over the public purse by the House of Commons was early established as one of the fundamental principles of the British constitutional system, no means for making this control really effective were put into execution until the nineteenth century. The fact is that it was not until this late date that the expression 'control of the public purse' came to have the meaning that it now has. During all the earlier period when Parliament was seeking to exert its power over the Crown in respect to financial matters it had in view, not the direction how public moneys shall be spent, but the limitation of the total amount that the Crown might demand of the people in the way of taxation for governmental purposes. Control at this time meant a control over revenues and receipts rather than the expenditure side of governmental operations. The chief solicitude of Parliament was the protection of the taxpayer. It hardly had the conception of taking to itself the determination of the manner in which funds, the raising of which was once authorized, should be expended. Discretion in respect to the expenditure of funds was recognized as a prerogative of the Crown. It was the duty of the Crown to administer the affairs of the country. Anything

approaching the modern practices of stating in detail how money granted for the support of the government should be spent would have been looked upon as an unwarranted intrusion of the legislative branch into the executive branch of the government. Only gradually, step by step, has this principle been modified and the present practice established."<sup>1</sup>

In securing the present complete control by Parliament over expenditures as well as receipts, certain things had to be done. These were: the designation by Parliament of the purposes for which moneys authorized to be raised by the Crown through taxation or otherwise should be spent; the separation of the revenues of the government from those of the private purse of the King; the requirement that all of the revenues of the government should be covered into a central treasury, from which no money should issue except upon express authorization of Parliament; the provision of means through which actual treasury receipts and issues might be controlled; the requirement that all administrative officers charged with the duty of collecting, having the custody of, or disbursing public funds should keep an accurate record of all moneys coming into, or passing through, their hands and make a systematic report of all such transactions; the requirement that such accounts and reports shall be subjected to a careful examination by an officer or officers, acting as the direct agent of, and reporting to, the legislature, for the purpose of verifying their accuracy, seeing that all legal requirements have been complied with, and of determining the judgment and economy with which expenditures were made and finally, the consideration by the legislature itself of the information thus developed with a view to correcting such abuses as may have occurred and of taking the action required in order to enforce due accountability on the part of all officers charged with the handling of public funds.

All of these several steps in perfecting the system of legislative control over the raising and utilization of public funds have been taken by the British government, though as stated, many were not finally perfected until well into the nineteenth century. The general practice of designating the purposes for which moneys authorized to be raised by the Crown through taxation should be devoted, dates from the Revolution of 1688 and is, thus, coincident with the establishment of parliamentary government in its modern sense in England. At the outset this designation was in the most general terms, as, for example, the prosecution of the war with Holland. For a long time little attempt was made to specify the use that should be made of parliamentary grants in any detail. Until 1798

<sup>1</sup>Quoted from the author's work, *The System of Financial Administration of Great Britain*, pp. 26-27.



there was but a single vote or appropriation for the whole of the navy and it was not until well into the nineteenth century that funds were appropriated with any considerable degree of particularity. The separation of the King's privy purse from the public treasury was accomplished during the reign of William III, through the establishment of the principle of the "Civil List"; that is, a grant of funds of a specified amount for the personal use of the King, and the requirement that all revenue pertaining to the government should be deemed to be public revenue. The requirement that all of the revenues of the government should be covered into the treasury and that all government expenditures should be met by drafts upon the treasury, was met by the establishment of what is known as the Consolidated Fund in 1787. Provision for the current control of treasury receipts and issues was not finally perfected until 1834, when the whole system of financial administration of Great Britain was thoroughly overhauled. Among the changes then made was that providing for the creation of the new office of "Comptroller General of the Receipt and Issue of Her Majesty's Exchequer," to which officer was transferred the duty of seeing that no money should issue from the Exchequer except in pursuance of an appropriation formally made by Parliament. The establishment of anything like a satisfactory system of public accounts and of the examination or audit of those accounts by an officer independent of the spending services and reporting directly to Parliament, dates only from 1866, and was secured by the passage of the the famous "Exchequer and Audit Departments Act, 1866," and the establishment by the House of Commons in 1861 of a Standing Committee on Public Accounts, whose duty it is to review the financial operations of the government for the purpose of informing Parliament of the manner in which its administrative agents had performed their duties in respect to the collection, safeguarding and expending of the public revenues.

### **Establishment of Financial Control in the United States.**

The steps by which the British Government finally perfected the means of making parliamentary control over financial operations a reality, have been reviewed both as a matter of interest in itself and as constituting an effective way of showing the elements involved in meeting this problem of control. When our government was established in 1789 the principle that the legislative branch should be the exclusive fund-raising and fund-granting authority was definitely established in England. This principle was incorporated in our constitutional system by the provisions of the Constitution vesting in Congress the power "to lay and collect taxes, duties, imposts and excises" and "to borrow money on the credit of the United States." and providing that "no money shall be

drawn from the treasury but in consequence of appropriations made by law." The Constitution also, by inference at least, provided for the keeping of accurate accounts showing receipts and disbursements, by the provision that "a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." These provisions of the Constitution were made effective and further provision for securing congressional control over financial operations was made by the act of September 2, 1789, establishing the Treasury Department. Among the provisions of this act were those calling for the creation of the office of Comptroller, whose duty it should be to control treasury receipts and issues and the office of Auditor, whose duty it should be to examine or audit all public accounts. The system thus inaugurated underwent various modifications from time to time, the most important being those effected by the so-called Dockery Act of 1894. This act, which was passed as the result of a detailed examination of the whole accounting system of the government by a special commission provided for the examination and audit of all accounts of the government by six Auditors for the departments located in the Treasury Department and a Comptroller of the Treasury who had superior authority in respect to the construing of appropriation acts and the determination of the final settlement of claims.

This system, from the administrative and control standpoint, had two radical defects: (1) Responsibility for the audit of accounts was diffused among seven officers, since the six Auditors for the departments were not administrative subordinates of the Comptroller of the Treasury, though bound to follow his rulings in respect to the settlement of claims; and (2) all seven of these auditing officers, as officers of the Treasury Department, holding office through appointment by the President of the United States and subject to dismissal by him at any time, were officers of the administrative instead of the legislative branch of the government. They were, thus, in the anomalous position of being officers of the organization whose operations it was their duty to examine into and control, and subject to the influence, if not the direct order, of the head of such organization. Though it was recognized that the functions of the Comptroller of the Treasury were of a quasi-judicial character and that it was desirable that as a general proposition he should exercise his functions free from outside direction, the situation was one where he was a subordinate of the Secretary of the Treasury and through that officer of the President of the United States, at whose will he held office. There was, thus, always present the possibility that these officers might make known to the Comptroller their will in respect to the construction of law as authorizing or not, certain classes of claims. And there was

always the knowledge on the part of the Comptroller that if his action ran too strongly counter to the wishes of the Secretary of the Treasury, and particularly the President, he incurred the risk of being removed from office. The fact that the President can enforce compliance with his wishes through the exercise of his powers of dismissal, where he does not have legal authority to order the action to be taken is illustrated by the dismissal by President Jackson of his Secretary of the Treasury, who refused to meet his wishes in respect to the removal of public deposits from the Bank of the United States. It is a matter of common report that a later President threatened similar action in the case of the officer now under consideration. To quote from a carefully prepared statement of James M. Beck, then holding the office of Solicitor General of the United States:<sup>1</sup>

I am told that during the first administration of President Cleveland, when Mr. Garland was Attorney General, the officer who exercised the powers afterwards conferred upon the Comptroller of the Treasury, declined to follow an opinion of the Attorney General. Mr. Garland brought the matter to attention of the President, who summoned the officer and told him, in substance, that the Attorney General was the legal adviser of the President, and that if the Comptroller was unwilling to be guided by his advice his resignation would be at once accepted. After that interview the Comptroller saw the matter in a different light.

Even if the Comptroller of the Treasury and the Auditors were not interfered with in the performance of their technical duties of settling claims, they were, nevertheless, in a position where they could not fearlessly criticize the administration in respect to the manner in which financial affairs were being administered; a duty which, as will shortly be shown, should constitute one of the most important functions of an auditing officer.

These two defects were corrected by the Budget and Accounting Act, 1921. This act, in addition to providing for a scientific budget system, provided for the abolition of these officers in the Treasury Department, and the vesting of all of their duties in a single General Accounting Office, to be presided over by a Comptroller General, which office, the act declared "shall be independent of the executive departments," and the Comptroller General should exercise his powers and duties "without direction from any other officer." To make the independence of the Comptroller General effec-

<sup>1</sup>Statement of James M. Beck, Solicitor General, at a Hearing of Committee on the Judiciary of the House of Representatives with reference to two bills regarding the Authority of the Comptroller General, May, 27, 1924.

tive, the act provides that though he and the Assistant Comptroller General shall be appointed by the President, by and with the consent and approval of the Senate, they may not be removed except by a joint resolution of Congress, and then only for cause. The result of this act was not only to consolidate the function of the audit of accounts in the hands of a single officer but also to make this officer independent of the executive branch and directly responsible to the legislature. Under the new system, accounts, are now audited and settled, as they should be, by a representative of the branch that raises and grants the funds instead of by one representing and responsible to the branch having the expenditure of such funds.<sup>3</sup>

The principle of having the function of the examination and audit of accounts vested in an officer who is independent of the executive and directly responsible to the legislative branch or the people, is the one that is generally, if not invariably, adopted by the states and at least the larger cities. In New Jersey, Tennessee, and Virginia the auditor is elected by the joint vote of the two houses of the legislature. In all other states he is elected by the people.<sup>4</sup> The model state constitution drafted under the auspices of the National Municipal League, to which reference has repeatedly been made, provides that this officer shall be elected by a majority vote of all of the members of the legislature and hold office at its pleasure, and that his reports shall be made to the legislature.

**Functions of the Auditor.** In the foregoing attention has been directed to the sole point of the legal status of the officer entrusted with audit of accounts. There remains for consideration a more

<sup>3</sup>In view of the desire and intent of Congress that the General Accounting Office should be an agency independent of the executive and directly responsible to it, it would have seemed logical that its head should have been selected by Congress in some manner. To this method of selection there were, however, two objections. The first was that objection might be raised on constitutional grounds to the attempt by Congress to exercise the power of appointment of an officer of this character and that whether this objection was valid or not, a provision for the appointment by Congress of the Comptroller General and Assistant Comptroller General would be sure to give rise to discussion and might jeopardise the success of the bill. The second was that there was doubt as to whether the action of one Congress could be made binding upon another, with the consequence that if the Comptroller General and Assistant Comptroller General were appointed by Congress, their effective tenure of office might be limited to two years and the danger thus incurred of making the selection of this officer one subject to partisan political influence, a result which all were agreed would be exceedingly unfortunate. It was accordingly decided to vest the appointment of these officers in the President, but to give to them a tenure of office analogous to that of federal judges in the sense that they were not removable by the President.

particular description of the functions of this officer and the attitude that should be taken by him in performing his duties. Examination of these questions shows that if the auditor is fully to discharge the responsibilities that should be his, he must do the following things:

1. Control treasury receipts and issues.
2. Settle and adjust claims against the government.
3. Settle and adjust claims due the government.
4. Control the system of accounting and reporting and keep and render the general accounts of the government.
5. Serve as a general agency for the exercise of legislative control over the administration.

**Control of Treasury Receipts and Issues.** As has been pointed out, provision is made in all governments for an officer, known as the treasurer, whose duty it is to receive and have the custody of public funds. This officer is usually nothing more than a custodian of the funds with the duty of seeing that no funds coming into his possession issue therefrom except in pursuance of a proper order. As custodian it is his duty to keep an accurate record of all moneys coming into his possession and all moneys released by him in accordance with orders properly given to him. In respect to the issue of money from the treasury his responsibility is merely that of a paying teller in a bank; that, namely, of honouring requisitions in proper form and emanating from persons having the right to issue such orders. With the purposes for which the money is requisitioned and with its subsequent use and accounting therefor, he has no concern or responsibility. Though the physical custody of public funds is in the hands of an executive officer known as treasurer, the legal custody of such funds may be said to rest in the legislature, since no use can be made of such funds except upon the order of the latter. In administering this system a formal procedure is required by which moneys collected by government officers shall be formally "covered" into the treasury, to the end that a record shall be had of moneys coming into the possession of the treasurer, for the due accounting of which he can be held responsible; and a formal method is required for directing the treasurer to permit issues from the treasury. The system employed by the United States Government, as has been described, is that of ordering moneys to be covered into and to issue from the treasury through the use of what are known as "treasury warrants."

These warrants are all executed and signed by the Secretary of the Treasury, who thus acts as the requisitioning authority, but they are not valid until countersigned by the Comptroller General. The result is that the Comptroller General is the agent of Congress,

having the duty of seeing that all moneys that should be deposited with the Treasurer are so deposited and that no money issues from the treasury except in pursuance of law, that is, in pursuance of an appropriation by Congress. He is, thus, the comptroller of treasury receipts and issues.

This function of controlling treasury receipts and issues is quite distinct from that of settling claims and auditing accounts hereafter described. If all disbursements were made directly from the treasury through settlement warrants there would be no such distinction. In fact, the great bulk of disbursements in the payment of claims is made by so-called disbursing officers within the several services, who obtain their funds through accountable warrants and must account for the disbursement of the funds so placed at their disposition. The distinction between the controlling of treasury receipts and issues and the audit of accounts is brought out in the title given to the British officer occupying the position analogous to that of Comptroller General of the United States, his full title being "Comptroller and Auditor General."

**Settlement and Adjustment of Claims Against the Government.** Control over treasury receipts and issues represents but the first step in seeing that the financial affairs of a government are faithfully and properly conducted. In conjunction with this, steps must be taken to ensure that all moneys due the government are actually collected and offered for cover into the treasury and that all monies issuing from the treasury are, in fact, applied only to the meeting of expenditures legally incurred. The taking of these steps is known as the settlement and adjustment of claims due the government or payable to it. Each of these operations presents special problems and should, therefore, receive separate consideration. Examination will first be made of the problem of settling and adjusting claims payable by the government.

This function of the auditor to settle and adjust all claims is commonly referred to as the function of auditing disbursements. This is only in a very restricted or qualified sense. Though the work done by the auditor in examining and passing upon the accounts of disbursements by the disbursing officers is of the same character as that of conducting an audit, the purpose of the examination and the results that may follow from its findings are quite different. The function of settling and adjusting claims is one thing, that of determining whether the settlements when made were properly made and in accordance with all legal requirements is quite another. Only the latter operation can be strictly spoken of as an audit.

To state this in another way, an audit has nothing to do with the operation of determining in the first instance whether a claim

should or should not be paid. Its purpose is merely to determine by a subsequent examination whether the settlements arrived at were proper, and, if it discloses the fact that settlements were improperly made, to call attention to that fact. With such report, its responsibilities end. It may be said that the description here given of an audit applies only to what is known as a "post-audit" system, and that the system of examination of accounts by the auditor is that of what is known as a "pre-audit." This, however, is not so. The operation of liquidating obligations involves three distinct operations: (1) The settlement and adjustment of the claims representing the obligations; (2) the payment of the claims as thus determined to be just and due; and (3) the audit of the accounts recording these transactions for the purpose of determining, by means of an independent examination, whether the action taken was correct and proper. A "post-audit" system is one where the audit is made subsequent to the second operation, that is, the payment of money in satisfaction of the claim. A "pre-audit" system is one where the audit is made after the first operation, that is, after the settlement and adjustment of the claims, but before their payment. In neither case does the audit involve the exercise of authority in the way of authorizing the settlement and adjustment of claims in the first instance. It will be seen from this description of the nature of an audit that the function of the auditor to settle and adjust all claims against the government is quite distinct from that of an audit, except as it may be said that this office in performing that function *ipso facto* audits the accounts; that the system is one where the first and third of the three operations involved in liquidating obligations are performed at the same time and by one operation.

Care has been taken to distinguish between these two operations of settling and adjusting claims and the audit of such settlements, since there is a sharp division of opinion among students of public administration as to whether the present system under which claims against the government are, not merely audited, but settled and adjusted as well, by an officer who is independent of the administrative branch is the correct one. Few, it is believed, will question the desirability of the agency having the audit of disbursements being independent of the organization responsible for making such disbursements. There are many, however, who maintain that the settlement and adjustment of claims is a purely executive function, and should be performed by those executive officers who are responsible for the incurring of the obligation checked and controlled as may be needed by some other superior administrative authority. This, they maintain, is not only in accordance with correct theories regarding the separation of powers but also conforms to the requirements of efficient administration and represents

the practice in all private undertakings. If persons holding to this opinion could have their way, there would be a complete divorce between the operations of settling, adjusting, and paying claims on the one hand and the audit of these operations on the other. The first would be performed by officers of the administrative branch and the latter by the auditor as the representative of the legislature which granted the funds and set forth the conditions to be observed in their expenditure.

As regards the claim that the existing system does violence to the principle of the separation of powers, it must be borne in mind that the separation of powers as set up in our Constitution is one between legislative, the judicial and the executive powers and, as has been pointed out in the consideration of the legislature as a board of directors, the executive power does not comprehend the administrative power. It is the legislative branch that determines what administrative activities shall be engaged in, what instrumentalities shall be set up for the performance of such activities, what rules of procedure or conditions shall govern the administrative services in performing their duties, what funds shall be placed at their disposition for meeting their necessary expenses, and under what conditions those funds shall be expended and accounted for. In all this the relations between the legislature and the administrative services are direct, except as it may desire to treat the chief executive as one of its administrative agencies.

It follows logically from the foregoing that the contention that the settlement and adjustment of claims represents the exercise of an executive power and that the agency having the duty of making the settlement and adjustment of claims should, therefore, be an executive agency, is unsound, and is made only because those holding to this contention have failed to observe the distinction between executive and administrative powers and to recognize that the source of administrative power is the legislature.

It is one thing, however, to hold that the existing system is in conformity with our political system and quite another to hold that this system is the most desirable one from the standpoint of efficient administration. There are those who oppose the present system on the ground that it is not in the interest of good administration. They see an evil in a system where the services having responsibility for the administration of the law and to that end of contracting obligations shall not have the responsibility for the settling of these obligations.

In considering this practical aspect of the problem it is necessary to distinguish between the two grades of administrative authority and responsibility; that which is immediate and that which is ultimate or final. At best administrative services are but agen-



cies of the legislature. The authority they exercise is delegated authority. In creating them and in granting to them certain powers the legislature does not divest itself of responsibility for the manner in which those duties are performed. While immediate responsibility rests with the administrative services, ultimate or final responsibility rests with the legislature. On behalf of the present system it may be said that there is an element of danger in permitting the service that incurred an obligation to pass upon its own acts in the settlement and adjustment of such obligations and that far greater care will be exercised by those having responsibility for the incurring of obligations if they know that the manner in which they exercise this responsibility will be subjected to the control of an independent agency acting for their superior, the legislature.

In conclusion, either of the two systems, that where claims are settled and adjusted by an administration officer and subsequently audited by an officer independent of that branch and that where claims are settled and adjusted and audited by the same operation by an officer representing the legislature or the people, will work. The writer can only say that his opinion is supported by the practice generally followed by our political bodies.

**Scope of Duties of the Auditor in Settling and Adjusting Claims Against the Government.** The distinction between the settlement and adjustment of claims and their audit is but one of the important questions presented by this branch of financial administration. Another important question is that of the scope of the powers or duties of the officer having this function of settling and adjusting claims.

Provisions of permanent statute law impose on the heads of departments and services the performance of certain duties and vest in them, in many cases, large discretionary power in respect to the framing of rules and regulations having for their purpose to put these laws into effect and in taking action upon specific cases arising under these laws and regulations. With rare exceptions, money is required and is voted for the support of the services entrusted with the administration of the law and the performance of the work authorized or directed. The action taken by the heads of the departments and services in the framing of these rules and regulations and in acting upon specific cases, determines in many instances the circumstances under which claims for payments by the government will arise and the amounts of payments that shall be made. In not a few cases there may be a question whether the heads of the departments or services have properly interpreted the statute, whether the rules and regulations issued by them are in conformity with the law, or the action taken by them in specific cases is in conformity with the law or rules and regulations framed for putting such law into effect.

There can be no doubt that in cases such as these it is the duty of the executive officer in the first place to construe the law and determine his powers and duties under it, and, if he has doubt in respect to the matter to secure the opinion of the Attorney General. Having done this, the question is then presented as to whether this decision, whether supported or not by an opinion of the Attorney General, is binding upon the auditor in settling accounts arising under the administration of the law, or whether his duty of seeing that no payment of money is made except in strict conformity with law requires that he shall determine for himself whether the action of the executive officer which has as its result claims for the payment of money, was correct.

It is manifest that two positions can be taken in respect to this matter. The one is that the determination of the law is the duty of the officer having the administration of the law, assisted, if need be, by the advice of the Attorney General, and that the duty of the auditor is restricted to seeing that no improper payments are made in administering the law so construed. The other is that the auditor, in the performance of his duty of protecting the treasury and seeing that no payments not authorized by law are made, must himself construe the law, and that if he believes that a payment is most justified by the law, as so interpreted by him, it is his duty to prevent such payment being made and, if made, that reimbursement of the payment is enforced. Strong arguments can be adduced in support of both of these positions.

In support of the first the claim can be made that it is the intent of the legislature and in conformity with correct principles of public administration, that responsibility for the application of law should reside with the administrative officer charged with its enforcement and that to sanction the right of the auditor to review and reverse administrative action would mean that, in many matters of great importance, that officer and not the head of the department or service, would exercise supreme administrative authority.

In support of the second, it may be urged that the whole purpose of providing for an independent audit of accounts and the determination by such independent agency of what claims shall be paid, is that of providing for a check upon administrative officers; that the actual payment of a particular claim is of secondary importance to that of determining the validity of the administrative action which gave rise to such claim; that if the auditor is estopped from considering the validity of such action the door is thrown open to an abuse or unwise exercise of administrative authority that will entail illegitimate demands upon the treasury which may amount to many thousands or even millions of dollars.

This issue is one not merely of theoretical interest. In the case of the national government, at least, it has given rise to controversies which have seriously interfered with the due conduct of public affairs. An account of some of the more important of these disputes, with a statement of the position taken upon them by the Comptroller General and the Attorney General, will serve to convey a better idea of the nature and importance of the issue than can be obtained from any general statement.

On September 7, 1916, Congress passed what is known as the Employees' Compensation Act providing for the compensation of federal employees receiving "personal injuries" while in the performance of their duties and entrusted the administration of this act to a body known as the Employees' Compensation Commission. The question arose as to whether this act covered "occupational diseases" as well as personal injuries resulting from accidents, strictly speaking. The Commission, through the President, requested the opinion of the Attorney General on this matter. The latter, in an opinion comprehensively reviewing the history of employees' compensation and federal law applicable thereto, held that the interpretation of the act by the Commission was correct. This opinion, the Comptroller General refused to follow.

To relieve the situation, Congress was appealed to, and on June 5, 1924, passed an amendatory act providing definitely that "the term 'injury' includes, in addition to injury by accident, any disease proximately caused by the employment."

Another difference arising between the General Accounting Office and the administrative service had to do, not with the settlement of specific claims or the construing of the law under which claims arose, but with the authority of the General Accounting Office to issue regulations binding upon the disbursing officers of the departments in respect to the manner in which certain classes of claims should be handled. On November 25, 1922, the General Accounting Office issued its General Regulation No. 13, providing that on and after January 1, 1923, all government transportation accounts instead of being paid by the disbursing officers of the departments, should, after administrative examination by them, be submitted to the General Accounting Office for its examination, final settlement, and payment. The War Department, upon the receipt of the regulations, contested the authority of the General Accounting Office to issue them and sought an opinion of the Attorney General on the matter. This the Attorney General gave, completely sustaining the position of the War Department. Following the receipt of this opinion, the War Department and certain other departments elected to act upon it and refused to comply with the regulations of the General

Accounting Office. Other departments, however, ignored the opinion and complied with the regulations. The anomalous situation was thus presented of part of the government following the order of the Comptroller General and part of the opinion of the Attorney General.

In its final form, the issue that has been described, is whether controlling force shall be given to the opinion of the Attorney General or to the ruling of the auditor. It is not easy to take a definite stand with respect to this matter. The weight of the argument would appear, however, to be in favour of giving the controlling voice to the auditor. The objection of having the Attorney General have the final say is that he is an officer of the administrative branch, and to permit his opinion to prevail would do violence to the fundamental principle that the final construing of a law involving the payment of claims should lie in the hands of an officer independent of the spending branch and directly responsible to the legislature. If that officer errs in his rulings, redress must be sought in an appeal from him to his superior, the legislature.<sup>5</sup>

**The Auditor and the Courts.** A third issue of great importance in the settlement and adjustment of claims against the government is the extent to which the settlement arrived at by the auditor shall be final or may be applied from to the courts.

This is not the place to enter into any general consideration of the broad problem of the extent to which it is desirable that opportunity shall exist for a review by the courts of administrative action. As a matter of theory, it may be held that wherever action affects the rights of individuals the latter should have the opportunity of having their rights determined by a court of law. Action upon any such theory, where the action of governments is concerned, would result in disastrous consequences. If fully applied, it would enormously increase the difficulty, expense, and delay involved in the conduct of public affairs, if it did not make the whole administrative system unworkable. It would throw upon the courts an unbearable burden of determining how administrative affairs should be conducted and make the judicial branch the custodian of final administrative powers in many instances. The power of the courts to review the assessment of property for purposes of taxation offers a striking illustration of this. Few acts of a government more directly affect the property rights of individuals than that of determining

<sup>5</sup> For a detailed account of the controversy in respect to the powers of the Comptroller General and the Attorney General of the United States, see the author's work: *The Legal Status and Functions of the General Accounting Office of the United States*, Institute for Government Research, Studies in Administration, 1927.

the value that shall be placed upon their property for the purpose of determining the amount of taxes that shall be paid by them to the government. Although it is recognized that injustice may be, and, in fact, often is, done to individuals or classes of individuals in making such assessments, if every aggrieved property owner had the right of appealing to the courts for a review of the action of the administrative officer who made the assessment, the judicial and not the administrative branch would become the final authority for the performing of this important task of valuing property for taxation purposes. The courts have wisely acquiesced in the position that, in the absence of legislation conferring such duties upon them, they should not take jurisdiction in such cases unless fraud or misconduct so gross as to amount to constructive fraud is alleged, or the procedure in making assessments has been such that violence is done to the principle of due process.

All of the arguments in favour of this position apply with equal force to the matter of the settlement and adjustment of government claims. As showing an early appreciation of the importance of this principle, the following may be quoted from a joint communication by the heads of the executive departments, submitted to the Chairman of the Committee on Ways and Means of the House, January 21, 1817.<sup>6</sup>

A judicial examination, where the officer should allege that injustice has been done in the settlement of his accounts would perpetuate the delays in the settlement of the public accounts which have produced the derangement in the accounting offices that are intended to be remedied by the summary procedure recommended by the report. It is highly improbable that injustice will be practised by the auditing officers; but if it should happen in any case, the appeal could be to Congress who will always grant relief.

That the courts themselves appreciated the considerations involved, is shown by various decisions. That rendered in *United States v. Guthrie*<sup>7</sup> is especially to the point. It reads in part:

The only legitimate inquiry for our determination upon the case before us is this: whether under the organization of the Federal Government, or by any known principle of law, there can be asserted a power in the circuit court of the United States for the District of Columbia, or in this court, to command the withdrawal of a sum or sums of money from the Treasury of the United States, to be applied in satisfaction of disputed or controverted claims against

<sup>6</sup> American State Papers, Miscellaneous, Vol. II, p. 417.

<sup>7</sup> 17 Howard 284.

the United States. This is the question, the very question, presented for our determination; and its simple statement would seem to carry with it the most startling considerations—nay, its unavoidable negation, unless this should be prevented by some positive and controlling command: for it would occur, *a priori*, to every mind that a treasury not fenced round or shielded by fixed and established modes and rules of administration, but which could be subjected to any number of description of demands, asserted and sustained through the undefined and undefinable discretion of the courts, would constitute a feeble and inadequate provision for the great and inevitable necessities of the nation. The government under such a regime, or rather under such an absence of all rule, would, if practicable at all, be administered not by the great departments ordained by the Constitution and laws, and guided by modes therein prescribed but by the uncertain and perhaps contradictory action of the courts in the enforcement of their views of private interests.

Again, in the case of *Decatur v. Paulding*,<sup>8</sup> decided in 1840 by the Supreme Court, Chief Justice Taney, who had himself been both Attorney General and Secretary of the Treasury and was familiar with the problems of administration from the practical standpoint, said:

The interference of the courts with the performance of the ordinary duties of the executive departments would be productive of nothing but mischief; and we are satisfied that such a power was never intended to be given to them. Upon the very subject before us, the interposition of the courts might throw the whole pension fund, and the whole subject of pensions, into the greatest confusion and disorder.

In the national government prior to 1855, this principle that the settlement of all government claims was exclusively a matter of administrative determination, was not only a general one but one knowing no exceptions. Until then, there was no provision by which a person believing that his rights had suffered through the action of the accounting officer could appeal to the courts for a review of the accounting officer's decision. In that year, Congress by act of February 24, 1855 established a special tribunal, known as the Court of Claims, and conferred upon it jurisdiction to hear and decide certain classes of claims by private lessons and corpora-

<sup>8</sup> 14 Peters 496, 10 Law Ed. 579.

<sup>9</sup> 10 Stat. L., 612.

tions. The purpose of the establishment of this tribunal was not so much that of offering a means for a judicial review of the action of accounting officers, as that of relieving Congress of the great burden of examining into the merits of claims presented to it. The court was given the mere power of examining into the merits of the claims referred to it by Congress and brought into it by authorized persons, and of making an award setting forth its conclusions. Such awards imposed no obligation upon disbursing or accounting officers to pay them, and the court itself had no authority to issue execution to enforce its findings. All that the court could do was to report its findings to Congress for such action as the latter saw fit. Normally, appropriations would be made to satisfy the awards, but there were many cases where Congress was unwilling that the claims should be paid and refused to pass appropriations for their payment. It will be seen that the establishment of this court in no way curtailed the powers of Congress with respect to the determination of what expenditures should be made, nor did it subject the accounting officers to judicial direction with respect to the performance of their duties.

In 1887 was passed what is known as the Tucker Act, by which concurrent jurisdiction was conferred upon the Federal District Courts to entertain claims that might be brought in the Court of Claims. This was done to avoid the necessity for claimants residing away from the District of Columbia having to resort to that tribunal. This was subsequently amended to take from under its provisions, claims by officers of the government. Such officers must therefore, prosecute their claims in the Court of Claims at Washington.

It will be seen from the foregoing that, though provision has been made for the judicial determination of the merits of claims, the courts rendering the decision have no power, so far as any express provision of law is concerned, to issue an order to the accounting officers as to how a claim shall be settled by them or to make payments of claims in accordance with their decisions. Though this is so, the question is, nevertheless, presented as to whether it is not the duty, if not the legal obligation, of the accounting officers to follow the decisions of the courts. This, the Comptroller of the Treasury and his successor, the Comptroller General have uniformly refused to do unless such decision conforms to their opinion. The reasons for the refusal of these officers to be bound by the decisions of the Court of Claims and the District and Circuit Courts of the United States when acting as a Court of Claims, have been repeatedly set forth by the Comptroller of the Treasury and the Comptroller General in decisions rendered by them.

Though the Court of Claims and the District Courts acting as a Court of Claims cannot enforce their decisions upon the Comptroller General, the serious question has been presented as to whether the federal courts acting under their general powers may not entertain jurisdiction in respect to the settlement of claims and through the exercise of the use of the extraordinary remedies of writs of certiorari, mandamus, and injunction compel disbursing officers and the Comptroller General to take action which they would not otherwise do. The Comptroller General of the United States has denied this right. In this contention he has, however, been overruled by the courts. The latter have repeatedly held that when the action concerned was of a ministerial character, its taking could be compelled by a proper order of the court. This would seem to be sound doctrine.<sup>10</sup>

**Settlement and Adjustment of Claims Due the Government.** In the same way that it is the duty of the auditor to follow up, as it were, treasury issues and see that they are applied only in ways sanctioned by law, so it is the duty to go back of the mere fact of covering of money into the treasury and satisfy himself that all moneys due the government are in fact collected and offered for cover into the treasury. The performance of this duty is commonly described as the audit of receipts. This designation is, however, a misleading one, since, as has been pointed out, the work consists, not so much in seeing that all public moneys received by government officers are duly accounted for as that of seeing that all public moneys which should be collected by government officers are in fact collected and offered for deposit in the treasury. A more accurate designation of this duty is, therefore, the one chosen for the title of this section, the "Settlement and Adjustment of Claims Due the Government." This broad function is imposed upon the General Accounting Office of the national government by section 305 of the Budget and Accounting Act, 1921 which provides that: "All claims and demands whatever in which the government of the United States is concerned, either as debtor or creditor, shall be settled and adjusted in the General Accounting Office."

It will be seen from a reading of this section that, just as the duty of Comptroller General to settle and adjust claims against the government is something quite different from a mere audit of payments after claims have been settled and paid, so the settlement and adjustment of claims by the government goes far beyond that

<sup>10</sup> A recent important ruling on this subject is to be found in *Wright v. Ynchausti & Co.*, U. S. Supreme Court, decided Dec. 13, 1926. In that case the court decided that the signing of a warrant duly made out and properly executed was a ministerial act and directed the issue of a mandamus to compel such action,



of the mere audit of collections made. Unless this distinction is clearly kept in mind, it is impossible to understand the true function of an auditor in respect to this important matter of control from both the receipt and expenditure side of financial operations.

Of the need for an expenditure that will have this broad duty of seeing that all moneys due the government are collected and covered into the treasury there can be no doubt. Wherever investigations have been made of the administrative branch of governments, numerous cases have been developed where administrative officers having the duty of enforcing the payment of moneys due the government have failed to perform their duties properly, with the result that the government has lost large sums of money which it should have received. When the present writer some years ago assumed the position of Treasurer of Porto Rico, he found that, though there was a law upon the statute books that foreign corporations doing business in Porto Rico were required to pay an annual licence fee of \$25 for the right to do business on the Island many of them had for years failed to make such payments, and the Auditor had contented himself with seeing that all payments actually made were duly accounted for but had not sought to satisfy himself that all payments that should be made were in fact made. This matter was brought to the attention of the Auditor, with the result that the payment of all sums due in the past was secured and a new system put into effect by which all payments due in the future were likewise enforced.

There is little doubt that the same defects in respect to securing a due accounting for all receipts due the government that were found to exist in Porto Rico are present in many of our state and city governments. Too often, if there is any audit of receipts at all it is little more than a perfunctory checking of documents and too often it concerns itself only with collections actually made: it is, in a word, what is known as merely a paper audit. This condition obtains especially in respect to the miscellaneous receipts, the collection of which is in the hands of administrative officers other than those having charge of the collection of taxes proper. There are few governments where it would not be desirable to have a careful investigation made of all rights that the government has to the receipt of payments for miscellaneous services rendered materials supplied, privileges conferred, or penalties imposed, and the procedure employed in enforcing such payments, with a view to improving this procedure and strengthening the system of control through audit. The question is not merely one of preventing fraud on the part of collection officers, but of ensuring that they perform their duties in an efficient manner.

**Scope of Duties of the Auditor in Settling and Adjusting Claims Due the Government.** It has been seen that, though the principle of the settlement and adjustment of claims against the government by an independent auditor is clear, a wide divergence of opinion has developed, in the national government at least, as to the scope of the duties of this officer in respect to the construing of the law under which claims against the government arise. A similar difference of opinion has arisen in respect to the scope of the duties of the auditor in passing upon and settling claims in favour of the government.

Concretely, the question at issue is: whether the action of the assessing or collecting office in passing upon the facts and determining the amount of the money due the government shall be conclusive, the duty of the auditor being restricted merely to seeing that the sum so determined is collected and paid into the treasury, or whether the auditor shall have the duty of examining into the facts of the settlement for the purpose of satisfying himself that the proper amount of payment has been assessed.

In the national government this issue has arisen in an acute form. The Comptroller General has taken the position that it is a part of the proper duties of his office to review all assessments of taxes as to their correctness. Pushed to its logical conclusion, this would mean that all determinations of customs and internal revenue dues as made by the customs and internal revenue service were of a provisional character, that they should be reviewed by officers of the General Accounting Office, and the final accounts to be paid determined in that office. The Comptroller General has not sought to exercise this authority in the case of internal revenue dues, since there is an express provision of law that the action of the Bureau of Internal Revenue in assessing dues shall not be subject to review by any other administrative or accounting officer. As this provision is not found in the law providing for the administration of the customs system, the Comptroller General has sought to set up a system for the review of the action of customs officers in assessing customs dues. This assertion of review power by the Comptroller General has been resisted by the Secretary of the Treasury. The latter has denied that the Comptroller General has any such powers as a matter of law, and in this he has been fully supported by an opinion of the Attorney General.

It would be out of place to attempt here any discussion of the legal aspects of this controversy. This phase of the subject has, moreover, been handled at some length by the present writer in another place.<sup>11</sup> The controversy has been cited merely to bring

<sup>11</sup> The Legal Status and Function of the General Accounting Office of the National Government.

out the fact that there is a grave question as to the scope of the duties of an auditor in settling and adjusting claims due the government, Our interest here is limited strictly as to how this question should as a matter of principle and practical expediency, be answered.

From the standpoint of principle, it is difficult to get away from the position that has been taken by the Comptroller General. If it is desirable that all expenditures shall be examined into and their legality be finally determined by an agency independent of the spending services, it would seem to be equally necessary that there should be an equally searching scrutiny and determination of the assessment of moneys due the government independently of the collection services. The administration of the revenue laws of a government involves the making of classifications and rulings which affect to the extent of millions of dollars the revenue received. Errors of judgment in making these classifications and rulings may be made and actual fraud perpetrated in the handling of particular cases. Where the ruling or action in specific cases is adverse to the taxpayer, the latter usually has recourse to some superior tribunal, such as the Board of Tax Appeals or the Customs Court in the case of the national government. Those that are favourable to the taxpayer, even though they may be improperly so, usually pass without question. It is impossible to estimate the possible loss that a government may suffer through the failure of the revenue services properly to assess and collect the sums that should be paid to it. An independent examination and determination of the amounts due would not only detect those cases where the amounts had been fixed at too small a sum but would also contribute a powerful incentive to the assessment and collection services to perform their duties with a maximum of fidelity and judgment.

When one turns from the question of principle to that of expediency, quite a different situation is found. A system under which the auditor or comptroller sought to examine into and review all assessments of property for purposes of the enforcement of the general property tax, the determination of the duties that should be paid on all entries of goods under the customs system, the payments that should be made by the thousands of income taxpayers, etc., would mean an intolerable duplication of work, increased expense, and delay.

There is but one way by which this conflict between principle and expediency may be resolved. This is by leaving responsibility for the determination of the amounts due with the assessment and collection services, but making it the duty of the auditor from time to time to make examination of the manner in which the affairs of these offices are conducted and to make what are known

as "test audits," that is, to examine the settlement of claims of a given class, effected during a given period or selected at random, and to report the results of such examinations and audits to the legislature. Through this system, the legislature would be in a position where it would currently receive reports from its agent regarding the manner in which the revenue laws were being administered. The fact that representatives of the auditor might at any time appear in their offices, demand the production of their procedure and action in particular cases to be selected by them, would constitute a strong moral check upon all assessors and collectors of revenue, and stimulate them to putting their operations on a basis that would not lead to adverse criticism. At any rate, the legislature as the body having final responsibility and power would be in a position to know the facts in a way that is impossible except where conditions are to be examined into and reported upon by an agency which has that independent status which alone makes possible courageous and unbiased expression of opinion.

**Accounting and Reporting Function of the Auditor.** It is evident that a comptroller and auditor general cannot properly perform his duties of seeing that all moneys due the government are collected and covered into the treasury and that no money issues therefrom except in pursuance of an appropriation without maintaining a system of accounts that will record all such transactions as made. Furthermore, it must be equally clear that this officer cannot discharge his obligations in respect to examining into the manner in which the funds granted to administrative officers are expended without having authority to determine the character of accounting and reporting systems that shall be maintained by such spending officers. This means that his office should be the central accounting office of the government, with power to prescribe the character of accounts and reports that shall be maintained and transmitted by all collecting and disbursing officers and with the obligation of itself preparing and publishing the financial statements required in order to make known the financial condition and operations of the government.

The requirements above mentioned are generally met by our governments, which for the most part provide by law that the auditor shall have the power to prescribe the accounting and reporting system to be used by spending services, shall himself keep the general accounts, and shall make an annual report setting forth the facts regarding the financial condition and operations of the government.

Though the law regarding this matter is fairly satisfactory in the case of the national government, much yet remains to be done

to perfect operations under it. Due to the fact that, prior to the passage of the Budget and Accounting Act, 1921, the Comptroller and Auditors were officers of the Treasury Department, this Department became in effect the central accounting office of the government. This situation has persisted to the present time. Though the General Accounting Office has begun to exercise its powers in respect to prescribing the accounting and reporting system of the operating services, it has as yet done little in the way of building up within its organization a system of central accounts and has done nothing in the way of preparing and publishing a document having the character of a general financial report for the government as a whole. There can be little question that it is desirable that it should act promptly and vigorously in this way. The present situation, where responsibility for keeping the central accounts and rendering the general financial reports is divided, is highly unsatisfactory; and results in much confusion and duplication of work. As has elsewhere been indicated, the present central accounting and reporting system is of an extremely archaic character. In taking to itself the function of keeping the central accounts and rendering the general financial report, the General Accounting Office can thoroughly revise this system and put it upon a proper basis. Fortunately, there is evidence that the needs of this situation are appreciated by that office and that action in the direction indicated is now contemplated.

**Function of the Auditor as an Agency of General Legislative Control of the Administration.** Throughout this work, emphasis has been laid upon the fact that the starting point in considering the problem of administration is the position of the legislature as the custodian of all administrative powers, and its function as the board of directors for the government as an operating concern. Upon the legislature thus rests the final responsibility, not merely for giving orders, but also for seeing that those orders are honestly and efficiently carried out. The latter responsibility it cannot meet directly. Just as the chief executive has need of a bureau of general administration through which he can perform his duties of general manager, so the legislature has need of a similar agency through which it can meet its administrative responsibilities. The office of auditor provides such an agency. That it may perform this function, is one of the strongest reasons why it should be attached to the legislative branch, or be at least, completely independent of the executive.

One of the most fundamental criticisms that can be made of the administrative system of our government is the failure to recognize the potentialities of this office from this standpoint. In most of the states, and in the national government prior to the

passage of the Budget and Accounting Act, the duties of the auditor consisted of little more than the formal examination of accounts for the purpose of seeing that all legal provisions regarding the expenditure of funds were observed. Their audit was little more than a paper audit. They did not consider it a part of their duties to bring to the attention of the legislature instances of unwise expenditures of money or inefficiency in handling the financial and other affairs of the government. Their reports were of the most perfunctory character and gave practically no aid to the legislature in determining the action that should be taken by it to ensure a more efficient conduct of governmental affairs.

The passage of the Budget and Accounting Act constitutes a landmark in respect to the appreciation of the services that can and should be rendered to the legislature by the office of auditor or comptroller. In creating the independent General Accounting Office, Congress entrusted to it, not only all the powers formerly possessed by the Comptroller of the Treasury and the six Auditors for the departments, but also conferred upon it broad powers and duties of acting as the agency to enquire into the manner in which the administrative services were conducting their affairs and of recommending action that should be taken by it to improve administrative conditions. The importance of this action warrants the reproduction in full of the provisions of this act by which these enlarged powers and duties were conferred. The act reads:

(a) The Comptroller General shall investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds, and shall make to the President when requested by him, and to Congress at the beginning of each regular session, a report in writing of the work of the General Accounting Office, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipt, disbursement, and application of public funds as he may think advisable. In such regular report, or in special reports at any time when Congress is in session, he shall make recommendations looking to greater economy or efficiency in public expenditures.

(b) He shall make such investigations and reports as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures. The Comptroller General

shall also, at the request of any such committee, direct assistants from his office to furnish the committee such aid and information as it may request.

(c) The Comptroller General shall specially report to Congress every expenditure or contract made by any department or establishment in any year in violation of law.

(d) He shall submit to Congress reports upon the adequacy and effectiveness of the administrative examination of accounts and claims in the respective departments and establishments and upon the adequacy and effectiveness of of departmental inspection of the offices and accounts of fiscal officers.

(e) He shall furnish such information relating to expenditures and accounting to the Bureau of the Budget as it may request from time to time.

Sec. 313. All departments and establishments shall furnish to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their respective offices as he may from time to time require of them; and the Comptroller General, or any of his assistants or employees, when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department or establishment. The authority contained in this section shall not be applicable to expenditures made under the provisions of section 291 of the Revised Statutes.

That Congress has clearly in mind the character of services that it desired from this new agency, is shown by comments on the bill while under consideration by Congress. Mr. Good, the author of the bill, said in the course of the debate:<sup>12</sup>

It was the intention of the Committee that the Comptroller General should be something more than a book-keeper or accountant, that he should be a real critic and at all times should come to Congress no matter what the political complexion of Congress or the executive might be and point out inefficiency if he found that money was being misapplied—which is another term for inefficiency—and that he should bring such facts to the notice of the committee having jurisdiction of appropriations.

<sup>12</sup>*Cong. Record*, May 5, 1921.

Another member of the committee, Martin B. Madden, who became Chairman of the House Committee on Appropriations under the new system, described the Comptroller Général as the instrumentality through which the legislative branch of the government can get information which it has not been able to get heretofore and thus leave the people's representatives to criticize any waste or extravagance of the administration.<sup>18</sup>

Nothing like these provisions is to be found in any prior act. Their enactment shows that Congress had an entirely new conception of the function and duties of this office. They mean, if carried out in the spirit in which they are framed, that Congress will, for the first time in its history, have a real organ through which it can pass in review the manner in which its orders and authorizations to spend have been carried out and can exercise that supervision and control over administrative acts which is as essential a part of its function as is fund-raising and fund-granting. Under the old system, however, it vainly attempted to do this through periodic investigations conducted by its regular or special committees. These committees were often forced to act without any systematic knowledge of actual transactions. Too often, also, their inquiries were conducted in a purely partisan spirit. Almost always they have been without that technical assistance which alone would make their inquiries fruitful. In all cases they have thrown a great burden of work upon members of Congress and have involved a large expenditure of government money. Under the new system Congress will currently, and automatically as it were, get much of the data that it has sought to secure in this ineffective way. When special information is desired it can be readily furnished at a minimum of expense and trouble by the Comptroller General's office.

This action on the part of the national government has been set forth at some length because it is believed that it points the way to action that should be taken by our other governing bodies. If the auditors of the states and cities do not now have the powers conferred upon this agency, such powers should be granted to them. They should be required to submit annual administrative reports. In addition to their reports on finances, in which they should make known the results of their enquiries and their suggestions for improving conditions. Such reports, if properly prepared, would be among the most important documents issued by the government.

**Legislative Committee on Public Accounts.** The office of auditor, even if developed so as to realize its full potentialities, is after all but an agency. Its principal is the legislature. If the latter

<sup>18</sup>*Ibid.*, Oct. 21, 1919.



is to make use of the work of its agent, it must make provision for receiving its report and giving consideration to the matters contained in it. Both study of the problem and experience show that this end can best be secured by the creation by each house of the legislature, or, possibly by the two houses jointly, of a Committee on Public Accounts, whose duty it will be to receive the report of the auditor and, acting on behalf of the two houses, to subject its presentation of facts and recommendations to careful scrutiny and such further examination as it may find desirable for the purpose of determining the fidelity with which the administration has performed its duties and of bringing to the attention of the legislature as a whole matters requiring its action.

As set forth by the writer in his study of the system of financial administration of Great Britain,<sup>14</sup> real control by Parliament over the expenditure of public moneys was not secured until the middle of the nineteenth century. The starting point in perfecting the present efficient system of financial administration of Great Britain was the report of the Committee on Public Monies 1856-7. This report, after recommending that provision be made for a complete audit of all public accounts by an officer of, and directly responsible to, the House of Commons, further recommended "that these audited accounts be annually submitted to the revision of a committee of the House of Commons to be nominated by the Speaker." This suggestion was one of the first recommendations of the committee to be acted upon. In 1862 Mr. Gladstone, as Chancellor of the Exchequer, secured the adoption of a standing order making provision for a committee of this character under the title of Committee on Public Accounts.

This committee, which has had an uninterrupted existence since that date, has constituted one of the most important features of the system that Great Britain has built up, step by step, for the administration of her financial affairs. From the start the committee has taken its duties seriously and membership on it has been highly regarded. A noteworthy feature of its organization is that, with rare exceptions, its chairman has been selected from the opposition, so as to emphasize the policy that has been adopted of giving to the work of the committee a non-partisan character. The function of the committee may be broadly stated to be that of annually reviewing the financial operations of the government for the purpose of determining the fidelity with which administrative officers have performed their duties. In making this review it not only has before it the report of the Comptroller and Auditor General but it also

<sup>14</sup> The System of Financial Administration of Great Britain, by W. F. Willoughby, W. W. Willoughby, and S. M. Lindsay, Institute for the Government Research, Studies in Administration, 1917.

has the direct assistance of those officers. As Colonel Durell has pointed out in his noteworthy study of parliamentary control over financial operations:<sup>15</sup>

The public Accounts Committee possesses the great advantage of being served regularly and continuously by a great public department under the Comptroller and Auditor General, who is able by personal attendance at the meetings to assist its labours in a manner in which his report alone could not assist a committee of the whole house. A principal permanent official of the Treasury also attends every meeting. The committee is thus able to obtain accurate knowledge collected by trained officers. The Comptroller and Auditor General has been described as to a large extent the acting hand of the committee. He guides the Public Accounts Committee in their labours, he detects the points of question, presents them with such information concerning them as he has obtained and leaves the committee to pursue them further, to consider them and report on them. A committee would probably never be able to detect any official extravagances or scandals unless guided by an official bloodhound who is in their service and with such powers as the Comptroller and Auditor General possesses.

It is important to note that, just as the functions of the Comptroller and Auditor General properly extend beyond making a mere formal or proper audit of expenditures to that of pointing out wherein moneys have been wastefully or ill-advisedly spent, so the functions of this committee include the duty of detecting not merely illegal action but also the extent to which discretion in respect to the application of funds has been unwisely exercised. In the words of Colonel Durell, "whether dealings with subjects originally suggested therein, or in taking a fresh line of its own, the functions of the committee extend, however, beyond the formality of expenditure to its wisdom, faithfulness, and economy."

Regarding the practical advantages of the work of this committee, there can be no doubt. To a considerable extent it is looked upon as the crowning feature of the whole system of British financial administration.

This arises not merely from the fact that through it Parliament is able currently to pass upon the acts of its administrative agents, but also from the great restraining influence that the committee

<sup>15</sup> *The Principles and Practices of the system of Control Over Parliamentary Grants*, by Col. A. J. V. Durell, Chief Paymaster, War Office, p. 115 (London, 1917).

has upon these officers in the expenditure of the funds granted to them. Thus to quote Colonel Durell again:<sup>16</sup>

It has been stated, indeed, that nothing has a greater deterrent effect on a department than the fear of having to go before the Public Accounts Committee and that the accounting departments stand more in awe of this committee than of the House of Commons itself, probably because there is less chance of escaping its close scrutiny. The Chairman of the committee expressed the same opinion to the House. "There is", he said, "a great deal of human nature in the world, and fear is one of the greatest helps in keeping men straight. The fear of the Public Accounts Committee and the very searching examinations that take place thus does a great deal to keep in the path of rectitude the members of the civil service."

No one can study the work of this committee and the part that it plays in the system of financial administration of Great Britain, without being convinced of the need for such a body in the Congress of the United States and in legislatures of the states. It represents, indeed, the last link in the chain of agencies, the other links of which are the chief executive as administrator in chief, the bureau of general administration, the committees on appropriations of the two houses, and the office of auditor or comptroller general, through which an efficient administration of the financial affairs of the government is to be secured. Without it much of the advantages anticipated from the creation of the independent office of auditor may be lost. In the national government the proposed committee would take the place of the present eleven committees on expenditures, which have never functioned efficiently.

It is gratifying to note that the desirability of creating a committee, such as is here proposed, is recognized by leading members of Congress. Mr. Martin B. Madden, Chairman of the Committee on Appropriations, has come out strongly for the creation of such a committee. In an article in the *Saturday Evening Post*, he writes:<sup>17</sup>

A further step of legislative procedure is necessary in the House. It has been accomplished in the Senate. The House has eleven different committees whose duty it is to investigate public expenditures—one committee for each of the ten executive departments, and the eleventh for expenditures on account of public buildings. There are no expenditure committees for the Veterans' Bureau, the Interstate

<sup>16</sup> *Ibid.*, p. 112.

<sup>17</sup> The New System in Government, June 9, 1923.

Commerce Commission or of any of the other units of government not attached to any executive department. These expenditure committees seldom function except when the House or Senate is controlled by one political party and the administrative branch of the government by another. Even then their investigations cannot be comprehensive. They may deal with specific and individual instances of mismanagement or maladministration, but there is no coordination of their activities or any opportunity to harmonize the broader aspects of the expenditure-investigation problem. The remedy for this situation is the abolition of the eleven committees and the creation of a single wide committee on public expenditures. Such an organization functioning with the General Accounting Office would, in my opinion, be a factor for an incalculable amount of good. Practically the only systematic attention now given by Congress to the investigation of expenditures is the time devoted by the appropriating committees in the course of the examination of the budget estimates. That work must of necessity be incomplete. The time available for visaing budget estimates and the magnitude of the work makes it impossible for any committee or committees to perform the two duties simultaneously and do justice to both. The creation of a centralized committee on public expenditures would relieve the appropriating committee and at the same time would provide an agency whose thorough investigations would be of inestimable value to the appropriating committees in the performance of their duties.

Again, in alluding to a resolution introduced by Representative Moore, providing for the creation of a committee of this character, he said:<sup>18</sup>

I have felt, I will say to the gentleman from Virginia, that is the one missing link in our fiscal organization where we are weak where we ought to be strong. If we had such a committee as the gentleman has called to our attention now, it would be a very wonderful assistance to the Committee on Appropriations in studying problems, investigating facts which would enable them to keep in close touch with the Comptroller General and between the Comptroller General and the Expenditures Committee and Appropriations Committee. I think we could, and I feel sure we would, so organize the expenditures after the money is appropriated for them as to keep all the expending officers of the Government within the law, to say the least.

<sup>18</sup>*Cong. Record*, Dec. 10 1926.

**Concluding Remarks.** It might seem that this matter of legislative control of expenditures has been handled at disproportionate length. The justification for this extended treatment is, however, that there is no feature of financial administration the nature and importance of which is less appreciated and provision in respect to which is less satisfactory. It may almost be stated as a general proposition that our legislative bodies, national, state, and municipal, fail even to appreciate that it is a part of their distinct obligations, not merely to make provision for meeting the financial needs of their governments, but also to see that their orders are in fact carried out. And even when this is appreciated only rarely have proper means been developed for meeting this obligation. In most cases their auditing systems call for little more than a perfunctory checking of items in order to insure fidelity; only rarely is it expected of auditors to include in their reports information that will aid the legislature in determining the judgment and economy with which spending officers have exercised the powers of discretion vested in them. The audit of receipts is too often one of collections rather than of moneys that should be collected. No American legislative body, so far as the writer is aware, has made provision for the systematic examination of the facts brought out by the audit of receipts and expenditures, through the creation of a permanent committee on public accounts or otherwise. In no small degree the extent to which systems of financial administration in the United States are unsatisfactory is to be directly attributed to this failure on the part of the branch of government which, after all, is primarily responsible for seeing that public affairs are properly conducted.

## APPENDIX



## BIBLIOGRAPHY.

### INTRODUCTORY NOTE

The preparation of a formal bibliography of public administration which can lay claim to completeness is practically impossible on account of the character of the material. The primary sources of information are, of course the statutes, administrative orders, annual and special reports of administrative officers, particularly those having to do with matters of administrative control, such as departments of finance, auditors, and comptrollers, central purchasing agencies, civil service commissions, and the like. For organized and critical material much the most valuable documents are the reports of official economy and efficiency commissions and the publications of private government research agencies, lists of which are elsewhere given. It is to this material that the student of public administration must largely turn in the prosecution of his studies. Unfortunately, this material is of a character, and has been issued in such a way, that it is difficult to secure knowledge of its existence or to obtain access to it after such knowledge is obtained. Only to a slight degree it is to be found in the ordinary library or listed in bibliographies. Many of the organizations issuing the publications have gone out of existence and their reports are no longer obtainable. Probably the most complete collection of this material, other than the regular annual reports of administrative officers, is to be found in the library of the Institute for Government Research at Washington and the Municipal Reference Library in the City of New York.

An attempt is made here to list and classify this material, to the end that at least a knowledge of its existence may be obtainable. With the exception that no attempt has been made to list all contributions to periodicals dealing with matters of public administration, but only those deemed to be particularly pertinent or of special value, the effort has been made to make the presentation as complete as possible. In not a few cases, however, the reference is made to the agency issuing materials dealing with public administrative problems rather than to the publications themselves. This is due to the fact that these publications are often of such a miscellaneous character, or relate to special subjects of interest only to a particular government or subjects no longer



of interest, that their listing, even if feasible, would serve no valuable purpose.

**Bibliographies.** Much the most valuable list of material in the field of public administration is "A Bibliography of Public Administration," by Sarah Greer, published by the National Institute of Public Administration, 1926. All of the works referred to under the head of "Treatises on Public Administration" contain copious footnote references to authorities.

**General Works on American Government.** All general treatises on American governments give, of course, a certain amount of attention to matters of administration. This consideration, though necessarily of a general character, is often of value. Especially is this true of works that have been published within the past few years dealing with state and municipal government. A number of these have been written by men who have been connected with official investigations of administrative problems and were thus in a position to handle this branch of government on the basis of personal familiarity with the subject. Among the more important of these works are: "State Government in the United States," by A. N. Holcombe, Rev. ed., 1926; "American State Administration," by J. M. Mathews, 1917; "American State Government," by J. M. Mathews, 1924; "State Government," by W. F. Dodd, 1922; "The Government in Illinois," by W. F. Dodd and Sue H. Dodd, 1923; "The Practice of Municipal Administration," by Lent D. Upson, 1926; "American City Government," by William Anderson, 1926; "Municipal Government in the United States," by Thomas H. Reed, 1926; "Documents Illustrative of Municipal Government and Administration," by Thomas H. Reed and Paul Webbink, 1926; "The Modern City and Its Government," by W. P. Capes, 1922; "The Government of American Cities," by W. B. Munro, 4th Ed., 1926; and "The Governments of Europe," by W. B. Munro. Rev. ed., 1926. ○

**Treatises.** If exception be made of the present work, the only attempt at a systematic treatise covering the field of public administration generally is the recent volume of Leonard D. White, Professor of Political Science, University of Chicago, "Introduction to the Study of Public Administration," 1926. This work, however, is restricted almost wholly to the consideration of problems of organization and personnel, particularly the latter subject. Practically no consideration is given to the problem of financial administration or to that of supply. The discussion of the two problems of organization and personnel is of great interest and is supported by valuable references to authorities. In the field of municipal administration two works of value have recently appeared: "Municipal Finance," by A. E. Buck, 1926, and "The Practice of

Municipal Administration," by Lent D. Upson, 1926. Both of these works are by men who have had a large experience in the study of problems of public administration, the first named as a member of the Staff of the New York Bureau of Municipal Research, now the National Institute of Public Administration, and the second as Director of the Detroit Bureau of Governmental Research. Their considerations of the problems of public administration represent the best thought on the subjects treated. As regards particular branches of public administration, the most important authorities are the four volumes which have appeared in the series "Principles of Administration," published by the Institute for Government Research: "Principles Governing the Retirement of Public Employees," by Lewis Meriam, 1918; "Principles of Government Purchasing," by Arthur G. Thomas, 1919; "Principles of Public Personnel Administration," by Arthur W. Procter, 1921, and "Principles of Government Accounting and Reporting," by Francis Oakey, 1921. Though not a treatise, mention in this connection should be made of the valuable study of the problem of municipal administration in the State of New York, contained in "Report of the Special Joint Committee of the New York Legislature on Taxation and Retrenchment," Retrenchment Section, Albany, 1920 (Legislative doc. No. 80).

**Administrative Law.** The subject of administrative law has not attracted the attention in the United States that it has on the continent of Europe, where provision is usually made for a separate system of administrative courts. For an excellent contrast of the two systems of administrative law, that of Great Britain and the United States on the one hand and that of France and other countries which have separate administrative courts on the other, see "Introduction to the Study of the Law of the Constitution," by A. V. Dicey, 5th ed., 1897, and "Comparative Administrative Law: An Analysis of the Administrative Systems, National and Local, of the United States, England, France and Germany," by F. J. Goodnow, 2 vols., 1903. A work dealing in a broad way with administrative law in the United States as it affects the organization and relations of governing bodies that is of value is "The Principles of the Administrative Law of the United States," by F. J. Goodnow, 1905. Another work of the same author that is of a suggestive character is "Politics and Administration," 1900.

On the more technical aspects of the powers and duties of administrative officers and their control by the courts, the leading authorities are: "Principles of the Administrative Law Governing the Relations of Public Officers," by Bruce Wyman, 1903; "A Treatise on the Law of Public Offices and Officers," by F. R. Mechem, 1890; "Growth of American Administrative Law," by

Ernst Freund, 1923; and "Cases on Administrative Law," by Ernst Freund, 1911.

**Periodicals.** There is no periodical published in the United States that is devoted exclusively to problems of public administration. The nearest approach to it is "The National Municipal Review," published monthly by the National Municipal League. Within later years this journal has made a special effort to chronicle important events in the field of public administration, state, municipal, and local. "The American Political Science Review," published quarterly by the American Political Science Association, also contains numerous articles and notes bearing upon matters of public administration. These two journals furnish much the best means of keeping in touch with current happenings and publications in this field. The "Annals of the American Academy of Political and Social Science" from time to time publishes symposiums on public administration of great value. Of less importance are the more technical journals, such as "The American City," "Municipal Engineering," "Journal of Accountancy," etc. Reference, finally, should also be made to "The Journal of Public Administration," the publication of which was begun in 1923 by the Institute of Public Administration, London, England.

**Publications of Economy and Efficiency Commissions.** Undoubtedly the most valuable body of data bearing upon the subject of public administration is to be found in the reports of the various official bodies that have been specially set up by the national and the state governments for the study of their organization and administrative practices and procedure and the recommendation of changes therein for the purpose of securing improved methods of conducting their affairs. Though variously named, these bodies have secured the general designation of economy and efficiency commissions.

The fullest account of the organization and work of these bodies is to be found in "Organized Efforts for the Improvement of Methods of Administration in the United States," by G. A. Weber, Institute for Government Research, Studies in Administration, 1919. This volume seeks to give an account of the history and work of all agencies, public and private, that have been created in the United States for the study of the problems of public administration and, so far as possible, to list their publications. It is divided into three parts: Part I, dealing with Agencies for Research in Government; Part II, Organs of Central Administrative Control; and Part III, Legislative Reference and Bill-Drafting Agencies. Chapter 2 of Part I, "Agencies for Investigating the National Administration: Official," is especially valuable from the standpoint of the present work, since it reproduces an exceptionally complete "Bibliography

of Congressional Inquiries 1789-1911," prepared for the President's Commission on Economy and Efficiency and published in one of that Commission's reports, besides giving a detailed account of the more important recent investigations, such as those by the Cockrell Committee, 1887-89, the Dockery-Cockrell Commission, 1893-95, the so-called Keep Committee, 1905-09, and the President's Commission on Economy and Efficiency, 1910-13. It will be noted that this work was published in 1919. It, thus, does not contain an account of official commissions and government research agencies that have been established since that date or list the publications of agencies that have been established during the past eight years.

Another list of organizations of this character, with indication of their reports "Bibliography: Efficiency and Economy, with Special Reference to State Government," by C. B. Galbreath, prepared for and included in the reports of the Ohio Joint Committee on the General Assembly on Administrative Reorganization, 1920.

Still a third list is that contained in "The Reorganization of State Government in Nebraska," by Cora Luella Gettys, Bulletin No. 11, Nebraska Legislative Reference Bureau, July, 1922. The pamphlet is of especial value not only because it brings the record of economy and efficiency commissions more nearly to date, but also because of its inclusion of a tabular statement of the action taken by the states in the way of reorganizing their administrative systems, and a select bibliography of the subject under the two heads of "General Works" and "Public Documents." Other lists are contained in "The State Movement for Efficiency and Economy, Municipal Research No. 90, October, 1917; and "State Commissions on Economy and Efficiency," by Chester C. Waters, Legislative Reference Bulletin No. 7, Legislative Reference Bureau of the Rhode Island State Library, January, 1915.

A list of these commissions, which is believed to be practically complete, follows. The date indicated is that of the report. In some cases these reports can probably be obtained by addressing the Governor or Secretary of State.

Alabama: Legislative Investigating Committee, 1915

Legislative Investigating Committee, 1919

California: Efficiency and Economy Committee, 1919

Colorado: Survey Committee of State Affairs, 1916

Connecticut: Commission to Investigate the Advisability of Consolidating Boards and Commissions, 1915

Special State Commission to Investigate and Report on an Administrative Code, 1921

Delaware: State Survey Commission, 1920

- Georgia: Budget and Investigating Commission, 1919  
 Illinois: Efficiency and Economy Commission, 1915  
 Indiana: Committee Appointed to Make a Survey of Boards and Commissions of Indiana, 1925  
 Iowa: Joint Committee on Retrenchment and Reform, 1914  
 Kansas: Efficiency and Economy Committee, 1916, 1917  
 Kentucky: Efficiency Commission, 1924  
 Maryland: Efficiency and Economy Commission, 1916  
     Reorganization Commission, 1921  
 Massachusetts: Efficiency and Economy Commission, 1914, 1915  
     Joint Special Committee on Finance and Budget Procedure, 1918  
     Commission on State Administration and Expenditures, 1920-22  
 Michigan: Community Council Commission, 1921,  
 Minnesota: Efficiency and Economy Commission, 1914  
     Commission on Reorganization of Civil Administration, 1917  
     Interim Committee on Reorganization of the State Government, 1925  
 Montana: Economy and Efficiency Committee, 1920  
 Nebraska: Joint Committee on Reform of Legislative Procedure of Budget, 1914  
 New Jersey: Economy and Efficiency Committee, 1913-17  
     Joint Legislative Survey Committee, 1925  
 Nevada: State Survey Commission, 1924  
 New York: Committee of Enquiry, 1913  
     Reconstruction Commission, 1919  
     Special Joint Committee on Taxation and Retrenchment, 1920-26  
     Governor: Message on Statutory Consolidation, 1924  
     State Reorganization Commission, 1926  
     The Governor: The Reorganized State Government, 1926  
 North Carolina: State Auditor, 1923  
 Ohio: Committee to Investigate State Department, 1915  
     Joint Legislative Committee on Economy and Taxation, 1926  
 Oregon: Consolidation Commission, 1918  
 Pennsylvania: Commission for the Consolidation of State Government 1922  
     Economy and Efficiency Commission, 1915  
 South Carolina: Joint Legislative Committee on Economy  
 Texas: Joint Legislative Committee to Investigate the Departments of the State Government, 1918.  
 Virginia: Commission on Economy and Efficiency, 1918  
     Special Joint Legislative Committee on Investigation of State Departments and Merger and Abolition of Offices, Boards, Commissions, etc., 1922  
     Commission on Simplification and Economy of State and Local Government, 1924  
     Report of Citizens' Committee on Consolidation and Simplification in Local and State Governments, 1926  
     Organization and Management of the State Government of Virginia.  
     Report of New York Bureau of Municipal Research, 1927  
 United States Government: President's Commission on Economy and Efficiency, 1911-13  
 Joint Committee on the Reorganization of the Administration Departments, 1924

Of the reports of these commissions, those of the President's Commission on Economy and Efficiency, the Efficiency and

Economy Commission of Illinois, and the Reconstruction Commission of New York are of especial value. In all three of these cases extensive use was made of trained investigators and students of political science in assembling and presenting the data and in formulating the recommendations for action.

**Publications of Private Government Research Agencies.** Of special importance, also, are the publications of the various organizations which have been created by private efforts for the purpose of subjecting to scientific study the problems of public administration generally or those of a particular government. For an account of the organization, work, and publications of these bodies, see "Organized Efforts for the Improvement of Methods of Administration," by G. A. Weber, Institute for Government Research, Studies in Administration, 1919. A number of agencies there described have since gone out of existence, while others have been established. An excellent brief account of the rise and work of these agencies is to be found in a pamphlet prepared and issued by the Governmental Research Conference in 1926 under the title of "Twenty Years of Municipal Research." Following is the list of the agencies of this character as given in that pamphlet:

- Akron: Bureau of Municipal Research of the Akron Chamber of Commerce, 1914 (Reorganized 1923)
- Arizona: State Taxpayers' Association of Arizona, 1914
- Baltimore: Commission on Efficiency and Economy, 1924
- Boston: Boston Finance Commission, 1919
- Calgary: Citizens' Research League of Calgary, 1922
- Canada: Citizens' Research Institute of Canada, 1919
- Chicago: Chicago Bureau of Public Efficiency, 1910  
Chicago Common Council Finance Committee, 1918
- Cincinnati: Bureau of Municipal Research, 1926
- Cleveland: Municipal Research Bureau of Cleveland, 1920
- Dayton: Dayton Research Association, 1912
- Des Moines: Bureau of Municipal Research of Des Moines, 1921
- Detroit: Detroit Bureau of Governmental Research, 1916
- Duluth: Taxpayers' League of St. Louis County, Inc., 1921
- El Paso: Tax and Economy Bureau of the El Paso Chamber of Commerce, 1917
- Grosse Point: Citizens' Association of Grosse Point, 1926
- Hoboken: Bureau of Municipal Research of the Hoboken Chamber of Commerce, 1911
- Indianapolis: Civil Affairs Department of the Chamber of Commerce, 1915
- Kansas City: Kansas City Public Service Institute, 1920
- Los Angeles: Bureau of Budget and Efficiency of the City of Los Angeles, 1925
- Milwaukee: Citizens' Bureau of Milwaukee, 1914
- Minneapolis: Bureau of Municipal Research of the Minneapolis Civil and Commerce Association, 1913
- Newark: Bureau of Research of the Chamber of Commerce of Newark, N. J., 1923
- Nevada: Nevada Taxpayers' Association, 1922

- New Bedford: New Bedford Taxpayers' Association, 1922  
 New Mexico: Taxpayers' Association of New Mexico, 1915  
 New York City: Commissioner of Accounts Office, 1873  
     National Institute of Public Administration (Bureau of  
     Municipal Research), 1906  
     Joint Municipal Economy Committee, 1926  
     Political Research Bureau, 1922  
 New York State: New York State Association, 1922  
 Oakland: Tax Association of Alameda County, 1911  
 Ohio: The Ohio Institute, 1913  
 Oklahoma City: Bureau of Governmental Research, 1923  
 Pennsylvania: Research Bureau of the Pennsylvania State Chamber  
     of Commerce, 1918  
 Philadelphia: Bureau of Municipal Research, 1908  
 Pittsburgh: Bureau of Costs, 1911  
     Bureau of Governmental Research, 1926  
 Portland: Tax Supervising and Conservation Commission of  
     Multnomah County, 1921  
 Rochester: Bureau of Municipal Research, 1915  
 St. Louis: Bureau of Municipal Research, 1922  
 St. Paul: Bureau of Municipal Research, 1921  
 San Francisco: Bureau of Governmental Research, 1916  
 Seattle: The Taxpayers' League of Seattle, 1910  
 Spokane: Taxpayers' Economy League of Spokane, 1921  
 Tacoma: Bureau of Municipal Research, 1923  
 Tokyo: Institute for Municipal Research, 1921  
 Toledo: Commission of Publicity and Efficiency, 1916  
 Toronto: Bureau of Municipal Research, 1914  
 Utah: Utah Taxpayers' Association, 1923  
 Vancouver: Bureau of Civic Research, 1925  
 Washington, D. C.: United States Bureau of Efficiency, 1913  
     Institute for Government Research, 1916

In the great majority of cases the reports of these bodies are of value only as they bear upon the problems of administration of the particular governments with which they are concerned. For the most part, also, their reports have been issued in manuscript form and are thus not generally available. The only two organizations which have pursued the policy of preparing reports of general interest are the Bureau of Municipal Research of New York City, now the National Institute of Public Administration, and the Institute for Government Research at Washington, D. C. The most important publication of the Bureau of Municipal Research of New York City are contained in the serial entitled "Municipal Research," of which Nos. 57 to 95 were issued during the years 1915-1921. In 1926, the successor to this Bureau, the National Institute of Public Administration began the issue of a series of studies under the title of "Studies in Public Administration." The following works have appeared in this series:

- The Custody of State Funds, by Martin L. Faust, 1925  
 A Bibliography of Public Administration, by Sarah Greer, 1926  
 The Post-War Expansion of State Expenditures, by Clarence  
     Heer, 1926

The National Institute of Public Administration has also issued independently of this series the following volume: "The State Police: Organization and Administration," by Bruce Smith, New York, 1925.

The publications of the Institute for Government Research have appeared in three series entitled "Principles of Administration," "Studies in Administration," and "Service Monographs of the United States Government." The volumes that have appeared in the first two of these series are listed below. The third series, when completed will embrace some seventy-five volumes, which will give an account of the history, activities, organization, etc., of each of the important administrative services of the national government. To date 47 volumes have appeared in this series.

*Principles of Administration*

- Principles Governing the Retirement of Public Employees, by Lewis Meriam, 1918
- Principles of Government Purchasing, by Arthur G. Thomas, 1919
- Principles of Government Accounting and Reporting, by Francis Oakey, 1921
- Principles of Public Personnel Administration, by Arthur W. Procter, 1921

*Studies in Administration*

- The System of Finance Administration of Great Britain, by W. F. Willoughby, W. W. Willoughby, and S. M. Lindsay, 1917
- The Budget, by Rene Stourm; T. Plazinski. Translator, 1917
- The Canadian Budgetary System, by H. C. Villard and W. W. Willoughby, 1918
- The Problem of a National Budget, by W. F. Willoughby, 1918
- The Movement for Budgetary Reform in the States, by W. F. Willoughby, 1918
- Teachers' Pension Systems in the United States, by Paul Studensky 1920
- Organized Efforts for the Improvement of Methods of Administration in the United States, by Gustavus A. Weber, 1919
- The Federal Service: A Study of the System of Personnel Administration of the United States Government, by Lewis Mayers, 1922
- The Reorganization of the Administrative Branch of the National Government, by W. F. Willoughby, 1923
- The Development of National Administrative Organization in the United States, by L. M. Short, 1923
- The Statistical Work of the National Government, by Laurence F. Schmeckebier, 1925
- Manual of Accounting and Reporting for the Operating Services of the National Government, by Henry P. Seidemann, 1925
- The National Government and Public Health, by James A. Tobey, 1926
- The Department of Justice of the United States, by Albert Lange-luttig, 1927
- The National Budget System, with Suggestions for Its Improvement, by W. F. Willoughby, 1927
- The Legal Status and Functions of the General Accounting Office of the National Government, by W. F. Willoughby, 1927



**City Surveys.** As regards the problem of municipal administration a limited, but valuable, source of information are the published reports of comprehensive investigations that have been made of the organization and administrative procedure of particular cities. These studies are usually designated as "City Surveys." The great bulk of these surveys have been made by the New York Bureau of Municipal Research, acting for the most part on behalf of local organizations. Miss Greer, in her "A Bibliography of Public Administration," states that this bureau has made about 250 surveys of this character. Only in part have the reports of these investigations been put in printed form. The most important surveys for which printed reports were prepared are listed below.

- Atlanta, Ga. Organization and Administration of the City Government of Atlanta, Ga.  
 Atlanta Chamber of Commerce, 1912  
 By the New York Bureau of Municipal Research
- Bridgeport, Conn. The City of Bridgeport, Connecticut; A Study of Organization and Procedure, 1913  
 By Peter White
- Columbus, Ohio. Report on a Survey of the City Government  
 Columbus City Council, 1917  
 By the New York Bureau of Municipal Research
- Denver, Colo. City and County of Denver; Report on a Survey of Certain Departments  
 Colorado Taxpayers' Protective League, 1914  
 By the New York Bureau of Municipal Research
- Indianapolis, Ind. Report on a Survey of the City Government  
 Indianapolis Chamber of Commerce, 1917  
 By the New York Bureau of Municipal Research
- Jamestown, N. Y. A General Administrative Survey of the City of Jamestown  
 Jamestown Board of Commerce, 1917  
 By the New York Bureau of Municipal Research
- Kansas City, Mo. Report on a Survey of the Government, 1915  
 By the New York Bureau of Municipal Research
- Los Angeles, Calif. Report on a Preliminary Survey of Certain Departments  
 Municipal League of Los Angeles, 1913  
 By the New York Bureau of Municipal Research
- Memphis, Tenn. Memphis; a critical study, 1909  
 By the Bureau of Municipal Research, Memphis
- New Orleans, La. Administrative Survey of the Government  
 New Orleans Municipal Survey Commission, 1922  
 By the New York Bureau of Municipal Research
- New York, N. Y. Government of the City  
 Prepared for the Constitutional Convention, 1915  
 By the Commissioners of Accounts of New York City and the New York Bureau of Municipal Research, 1915
- Norfolk, Va. Report on a Survey of the City Government  
 Norfolk City Council, 1915  
 By the New York Bureau of Municipal Research
- Portland, Ore. Organization and Business Methods of the Government

- By the New York Bureau of Municipal Research, 1913  
 Reading, Pa. Report on a Survey of Municipal Departments and the School Districts  
 Reading Chamber of Commerce, 1915  
 By the New York Bureau of Municipal Research  
 Richmond, Va. Report on a Survey of the City Government  
 Richmond Civil Association, 1917  
 By the New York Bureau of Municipal Research  
 Rochester, N. Y. Government of City of Rochester, N. Y. Description of Organization and Functions  
 Transmitted to the New York State Constitutional Convention  
 Rochester Bureau of Municipal Research, 1915  
 By the New York Bureau of Municipal Research  
 St. Louis, Mo. A Preliminary Survey of Certain Departments  
 City Council of the City of St. Louis, 1910  
 By the New York Bureau of Municipal Research  
 San Francisco, Calif. Survey Report  
 San Francisco Real Estate Board, 1916  
 By the New York Bureau of Municipal Research  
 Springfield, Mass. Organization and Administration of the City Government, 1913  
 By the New York Bureau of Municipal Research

**Organization of City Governments.** There is little or no special literature dealing with the organization of the administrative services of municipal governments. The subject, however, is considered in all works dealing with the problems of municipal government and administration. Especially is this true of those cited under the heading "General Works on American Government." The administrative organization of particular cities is also considered in detail in the volumes cited under the heading "City Surveys" and in the publications cited under the heading "Publications of Private Government Research Agencies." The literature dealing with the commission and the general-manager forms of municipal government likewise contains much of value dealing with this subject. A recent article on the subject is "The Trend of Reorganization in City Government," by Edward T. Paxton, *Annals of the American Academy of Political and Social Science*, May, 1924.

**Organization of the National Government.** From the historical and descriptive standpoint, the most important works with the organization of the national government are; "The Development of National Administrative Organization in the United States," by Lloyd M. Short, Institute for Government Research, Studies in Administration, 1923; "The National Administration of the United States," by John A. Fairlie, 1905; Federal Departmental Organization and Practice," by S. C. Thorpe, 1925; "The President's Cabinet: Studies in the Origin, Formation and Structure of an American Institution," by H. Barrett Learned, 1912; "The Development of the Executive Departments, 1775-1789," by J. C. Guggenheimer (in J. F. Jameson's "Essays in the Constitutional

History of the United States"), 1889; and the "Service Monographs of the United States Government," Institute for Government Research, 1918-1927.

Current information of a summary character regarding the organization of the national government may be obtained from the "Congressional Directory," of which one or more editions are issued annually, and in greater detail from the "Annual Budget," which is sent to Congress in December of each year. The "United States Daily," published at Washington, D. C., also contains charts of the organization of departments and bureaus and summary statements of the activities of the several services.

From the critical and suggestive standpoint, the most important works are: "The Reorganization of the Administrative Branch of the National Government," by W. F. Willoughby, Institute for Government Research, Studies in Administration, 1923; a brief summary of this volume published by the Institute for Government Research as a pamphlet "Reorganization of the Administrative Branch of the National Government; An Imperative Need to Secure Efficiency in the Conduct of National Affairs," 1923; "Reorganization of the Executive Departments: Letter from the President of the United States to Walter F. Brown, Chairman of the Joint Committee on Reorganization of the Government Departments. Transmitting a Chart Exhibiting in detail the Present Organization of the Government Departments and the Changes Suggested by the President and the Cabinet" (S. Doc. 302, 67th Cong. February 13, 1923, Serial 8171); "Hearings before the Joint Committee on Reorganization of the Administrative Branch of the National Government," January 7 to 31, 1924; and "Report of the Joint Committee on Reorganization of the Administration of the Administrative Departments June 3, 1924" (H. Doc. 356, 68th Cong., Serial 8274.)

Important works dealing with particular phases of the reorganization of the national government are: "The National Government and Public Health," by James A. Tobey, Institute for Government Research, Studies in Administration, 1926; and "Report of Committee on Organization of Federal Public Works," American Engineering Council, 1926 (in the Congressional Record, March 9, 1927); various "Reports" of the President's Commission on Economy and Efficiency, 1911-1913; and reports of congressional investigations in early years, a list of which is to be found in "Organized Efforts for the Improvement of Methods of Administration in the United States," by G. A. Weber, Institute for Government Research, Studies in Administration, 1919.

Periodical articles dealing with this subject are: "Government Service Reorganization," by W. F. Willoughby, Proceedings, Ninth

Annual Meeting Chamber of Commerce of the United States, 1921 (published as a pamphlet); "Administrative Reorganization in the Federal Government," by A. N. Holcombe, *Annals of the American Academy of Political and Social Science*, May, 1921 vol. 95; "The Reorganization of the Federal Government," F. A. Cleveland, *Proceedings of the Academy of Political Science*, 1921 vol. 9; "Reforms in the Federal Government," by Senator Reed Smoot, *Proceedings of the Academy of Political Science*, 1921; "The Problem of the Reorganization of the Federal Government," by Herbert Hoover, *Proceedings of the Academy of Political Science*, 1921, vol. 9; "Important Aspects of Administrative Reform in the Federal Government," by Will H. Hays, *Proceedings of the Academy of Political Science*, 1921, vol. 9; and "The Place of the Department of Agriculture in the Reorganization of the Federal Government," by Henry C. Wallace, *Annals of the American Academy of Political and Social Science*, May, 1924, vol. 113.

**Organization of the State Governments.** The most important sources of information regarding the organization of state governments are the reports of the economy and efficiency commissions, a list of which has been given, the acts passed to put the recommendations of those commissions into effect, which are usually designated as administrative codes or civil administrative codes, messages of governors urging the reorganization of the administrative systems of their states, the proceedings and other publications of recent state constitutional conventions and particularly those of Illinois, Massachusetts, and Pennsylvania, and the annual reports of the heads of the new administrative departments that have been created. A list of governors' messages dealing with the problem of administrative reorganization other than those of recent date is given in "The Reorganization of State Government in Nebraska," by Cora Luella Gettys, *Bulletin No. 11, Nebraska Legislative Reference Bureau*, July, 1922.

The movement for the reorganization of the administrative branches of the state governments has been followed rather closely by the several political science reviews, particularly the "American Political Science Review," the "National Municipal Review," and the "Annals of the American Academy of Political and Social Science." The files of these periodicals contain numerous articles on the subjects descriptive of the movement generally or the action taken in particular states. Following is a list of the more important of these articles which relate to the movement generally:

Reform of Our State Governments

By Gamaliel Bradford

*Annals*, Vol. 4, 1894

Recent Tendencies in State Administration

By Leonard A. Blue

- Annals, Vol. 18, 1901
- Growth and Future of State Boards and Commissions  
By F. H. Whitte
- Political Science Quarterly, Vol. 18, 1903
- The Reorganization of State Government  
By Herman G. James
- American Political Science Review, Vol. 9, 1915
- Reconstructing State Government  
By Charles A. Beard
- New Republic, Vol. 4 (Supplement), August 21, 1915
- State Reorganization and the Federal Problem  
By W. F. Dodd
- Proceedings of the Academy of Political Science, Vol. 9, 1921
- A Survey of State Executive Organization and a Plan of Reorganization  
By Charles H. Cronnan
- Doctor's thesis, University of Pennsylvania, 1916
- New Administrative Agencies  
By F. G. Bates
- American Political Science Review, Vol. 10, August, 1916
- The State Movement for Efficiency and Economy  
By Raymond Moley
- Municipal Research, No. 90, October, 1917
- The Movement for the Reorganization of State Administration  
By O. G. Haines
- University of Texas, Bulletin. Government Research Series,  
1848, August 25, 1918
- The Conflict over Co-ordination  
By J. M. Leake
- American Political Science Review, Vol. 12, 1918
- Responsible Form of Government  
By S. R. McKelvie
- Review of Reviews, Vol. 61, March, 1920
- State Administrative Reorganization  
By W. F. Dodd
- American Bar Association Journal, Vol. 7 August, 1921
- State Administration Reorganization  
By J. M. Mathews
- American Political Science Review, Vol. 16, August, 1922
- Dogmas of Administrative Reform  
By F. W. Coker
- American Political Science Review, Vol. 16, August, 1922
- Who Should Organize State Administration?  
By F. F. Blachly
- South-western Political and Social Science Quarterly, Vol. 4,  
September, 1913
- State Welfare and Consolidated Government  
By C. E. McCombs
- National Municipal Review, Vol. 13, August, 1924
- Reorganizing State Government  
By W. F. Dodd
- Annals, Vol. 113, May, 1924
- Administrative Consolidation in State Governments  
By A. E. Buck
- National Municipal Review, Vol. 8 (Supplement), November,  
1919, Revised Ed. September, 1922, 3d Ed., August, 1924
- Recent Steps Toward Administrative Consolidation in State  
Governments
- National Municipal Review, Vol. 14, November, 1925

The State Reorganization Movement  
By William H. Edwards  
North Dakota Law Review, 1927

A list of articles dealing with the reorganization of particular states follows.

### *Arkansas*

- Synopsis of Present Organization of State Government, Chart  
By Van B. Sims, State Comptroller  
Little Rock, 1921
- Administrative Reorganization with Special Reference to Arkansas  
By D. Y. Thomas  
University of Arkansas, Bulletin General Extension Division,  
September, 1921
- A Proposed Plan for Administrative Reorganization in Arkansas  
By D. Y. Thomas  
South-western Political and Social Science Quarterly, Vol. 2,  
June, 1921

### *California*

- Plan for Reorganization of the State Government  
California Taxpayers' Journal, October, 1919
- The Research Activities of Departments of the State Government  
of California in Relation to the Movement for Reorganization  
By James R. Douglas  
Bulletin, National Research Council, June, 1921
- Plan of Reorganization of the State Government of California,  
with Chart, Summary and Proposed Bill  
California Taxpayers' Association, January 21, 1921
- Administrative Consolidation in California  
By Josephine Hoyt  
American Political Science Review, Vol. 15. November, 1921

### *Colorado*

- The Work of the Colorado Tax Commission: A Report Prepared  
for the Colorado Survey Committee of State Affairs  
By Robert M. Haig  
Pamphlet, 1916

### *Idaho*

- State Administrative Reorganization in Idaho and Nebraska  
By John P. Sonning  
American Political Science Review, Vol. 13. November, 1919
- How Administrative Consolidation is Working in Idaho  
By Governor D. W. Davis  
National Municipal Review, Vol. 8, November, 1919
- Idaho's New State Consolidation Law  
California Taxpayers' Journal, January, 1920
- Idaho Sets Its House in Order  
By H. T. Lewis  
National Municipal Review, Vol. 8, May, 1919

### *Illinois*

- Government Reorganization in Illinois  
By John A. Fairlie  
American Political Science Review, Vol. 9, May, 1915

**Illinois Administrative Code**

By John A. Fairlie

American Political Science Review, Vol. 11, May, 1917

**Consolidation of Government Agencies in Illinois**

By W. F. Dodd

National Municipal Review, Vol. 6, May, 1917

**Executive Responsibility in Illinois**

By Governor Frank O. Lowden

Proceedings of Academy of Political Science, Vol. 8, July, 1918

**The Illinois Civil Administrative Code**

By Charles E. Woodward

Proceedings of the Academy of Political Science, Vol. 8, July, 1918

**Problems of Civil Administration**

By Governor Frank O. Lowden

North American Review, Vol. 210, August, 1919

**Illinois Adopts Business Management**

By Governor Frank O. Lowden

The Nation's Business, Vol. 7, February, 1919

**Administrative Reorganization in Illinois**

By J. M. Mathews

National Municipal Review, Vol. 9 (Supplement), November, 1920

**Organization of the State Executive in Illinois**

Illinois Law Review, Vol. 6, June, 1911

**Reorganization in Illinois and Its Results**

By Governor Frank O. Lowden

Annals, Vol. 113, May, 1924

**Illinois Administrative System: What It Has Accomplished**

By A. E. Buck

National Municipal Review, Vol. 11, November, 1922

**Indiana****Administrative Reorganization in Indiana**

By Charles Ketticborough

American Political Science Review, Vol. 13, November, 1919

**Iowa****Administrative Reorganization in Iowa**

F. A. Horack

American Political Science Review, Vol. 9, May, 1915

**Reorganization of State Government in Iowa**

By F. A. Horack

Iowa Applied History Series, Vol. 2, 1914

**Kansas****The Reorganization of State Government in Kansas**

By C. A. Dykstra

American Political Science Review, Vol. 9, May, 1915

**Maryland****Administrative Reorganization in Maryland**

By Niels H. Debel

American Political Science Review, Vol. 16, November, 1922

**Massachusetts****Administrative Control in the Commonwealth of Massachusetts**

By Morris B. Lambie

Annals, Vol. 113, May, 1924

*Michigan*

Unscrambling Michigan's Government

By L. D. Upson

National Municipal Review, Vol. 10, July, 1921

The Organization of State Administration in Michigan

By T. H. Reed and E. B. Schulz

Detroit Bureau of Governmental Research, Public Business, Vol. III, No. 10, 1924

*Minnesota*

The Reorganization of the Administrative Branch of the Minnesota Government

By J. S. Young

American Political Science Review, Vol. 20, February, 1926

Operation of Minnesota's Administrative Government under Reorganization

By Mrs. Frederick W. Wittich

Minnesota Municipalities, Vol. 12, May, 1927

*Missouri*

Administrative Reorganization in Missouri

By W. W. Hollingsworth

Washington University Studies, Vol. 8, Humanistic Series No. 2, 1921

Public Administration in Missouri

By Eugene Fair

Bulletin, State Teachers College, Political Science Series, No. 1, 1923

*Nebraska*

State Administrative Reorganization in Idaho and Nebraska

By J. P. Senning

American Political Science Review, Vol. 13, November, 1919

A Responsible form of Government: A Discussion of the Civil Administrative Code

By Governor S. R. McKelvie

Pamphlet, 1919

A Responsible Form of Government

By Governor S. R. McKelvie

Review of Reviews, Vol. 61, March, 1920

Nebraska's Reorganized State Administration

By A. E. Buck

National Municipal Review, Vol. 11, July, 1922

The Reorganization of State Government in Nebraska

By Cora Luella Gettys

Nebraska Legislative Reference Bureau Bulletin No. 11, July, 1923

Was Nebraska's Reorganized State Administration Repudiated at the Last Election?

By Ralph S. Boots

National Municipal Review, Vol. 10, February, 1923

*New York*

Administrative Reorganization in New York State

By Finla G. Crawford

University of Syracuse Press, 1925

New York State Reorganizes

By R. S. Childs

National Municipal Review, Vol. 15, May, 1926



*Ohio*

Administrative Reorganization in Ohio

By W. F. Dodd

American Political Science Review, Vol. 15, August, 1921

Administrative Reorganization: Ohio and Other States

By Karl T. Ferris

Ohio State University Thesis, 1921

Four Years Under the Ohio Reorganization Code

By James K. Pollack, Jr.

National Municipal Review, Vol. 14, September, 1925

*Oregon*

Reorganization of State Government in Oregon

By J. D. Barnett

American Political Science Review, Vol. 9, May, 1915

*Pennsylvania*

Fiscal and Administrative Reorganization in Pennsylvania

By Clyde L. King

"Legislative Notes and Reviews," American Political Science Review, Vol. 17, November, 1923

*Tennessee*

Tennessee Adopts Administrative Consolidation

National Municipal Review, Vol. 12, March, 1923

Administrative Reorganization in Tennessee

By A. E. Buck

National Municipal Review, Vol. 12, October, 1923

*Texas*

Officers, Boards and Commissions of Texas

Legislative Reference Bureau Bulletin No. 3, 1916

Officers, Boards and Commissions of Texas

By F. M. Stewart

University of Texas Bulletin, No. 1854, September, 1918

The Reorganization of State Administration in Texas

By Frank M. Stewart

University of Texas Bulletin, No. 2507, 1925

*Virginia*

Reorganization of State Administration

By Bruce Williams

Virginia Law Review, Vol. 8, April, 1922

Virginia Proposes Simplification and Economy in Government

By Robert H. Tucker

National Municipal Review, Vol. 14, November, 1925

*Washington*

Toward Simplified State Government in Washington

By Governor Louis F. Hart

National Municipal Review, Vol. 10, June, 1921

New Civil Administrative Code of Washington

By W. S. Davis

American Political Science Review, Vol. 15, November, 1921

Efficiency and Economy Under the Administrative Code

By Governor Louis F. Hart

Seattle, April 22, 1922

**Public Personnel Administration: Bibliographies.** For what is known as the Civil Service Reform Movement; that is, the movement for the abolition of the spoils system and the establishment in its place of the merit system, the best list of authorities is the "Bibliography of Civil Service Reforms and Related Subjects," published by the Women's Auxiliary to the Civil Service Reform Association at New York in 1900, the third edition of which appeared in 1923. Another bibliography of value is the "List of References on the Civil Service," contained in the Twenty-first Annual Report of the United States Civil Service Commission, 1905. A select bibliography covering the whole subject of public personnel administration is given as an Appendix in "Principles of Public Personnel Administration," by Arthur W. Procter, Institute for Government Research, Principles of Administration, 1921. Special bibliographies relative to civil service retirement and teachers' pension system are contained in "Principles Governing the Retirement of Public Employees," by Lewis Meriam, Institute for Government Research, Principles of Administration, 1918; and "Teachers' Pension Systems in the United States," by Paul Studensyk, Institute for Government Research, Studies in Administration, 1920.

**Public Personnel Administration: General.** The primary sources of information regarding public personnel administration in the United States are: the laws and provisions of municipal charters regulating the personnel systems of the governments to which they relate; the publications of civil service commissions, national, state and municipal, consisting of annual reports, rules and regulations, examination questions, instructions to candidates for entrance into the public service, etc.; the Proceedings of the annual meetings of the National Assembly of Civil Service Commissions; the nineteenth of which appeared in 1926; the Proceedings and special publications of the National Civil Service Reform League, and the reports and publications of state and municipal reform leagues or societies. The National Assembly of Civil Service Commissions has also published pamphlets dealing with such subjects as "A Standard Civil Service Law," "Efficiency Ratings," "Examination Standards," etc. The publications of civil service reform organizations are listed in detail in the "Bibliography of Civil Service Reforms and Related Subjects," to which reference has already been made.

The National Civil Service Reform League publishes a monthly entitled "Good Government," which is chiefly of value for the comment it contains on matters of current interest affecting the merit system. This periodical was first issued in 1892 and represents

a consolidation of the "Civil Service Record," published by the Civil Service Reform Associations of Baltimore and Cambridge from 1881 to 1892, and the "Civil Service Reformer," published in Baltimore from 1881 to 1892.

The recently organized Bureau of Public Personnel Administration issues a periodical, the first number of which appeared October 15, 1923, entitled "Public Personnel Studies." This has the special value of dealing with, not only general phases of public personnel administration, but also the technical questions that have to be handled by civil service commissions and other officers charged with the handling of personnel problems.

The only work treating in a broad way with all the problems of personnel administration is "Principles of Public Personnel Administration," by Arthur W. Procter, Institute for Government Research, Principles of Administration, 1921.

In addition to the foregoing there is an interesting body of literature dealing with the "spoils system" and the attempt to substitute for it the "merit system." This literature is concerned only incidentally with the technical problems of personnel administration. For the most part it deals only with the problem of the purification of political life and the establishment of a more equitable and efficient system of recruiting public personnel. Among such works the most valuable are: "Civil Service and the Patronage," by C. R. Fish, 1905; "Corruption in American Politics and Life," by R. C. Brooks, 1910; "Orations and Addresses," by George William Curtis, 1894, the second volume of which contains addresses on civil service reform matters; and "Fighting the Spoilsman," by William Dudley Foulke, 1919.

Among recent articles dealing with general phases of personnel administration may be mentioned "The Civil Service in the Modern State," by Herman Finer, *American Political Science Review*, Vol. 19, May, 1925; "Private and Public Employment Contracts," by C. R. Woodruff, *American Journal of Sociology*, Vol. 29, September, 1923; "Basic Principles of Personnel Management in Government Economy," by Henry S. Dennison, *Annals of the American Academy of Political and Social Science*, May, 1924; "Personnel Research Agencies," by J. David Thompson *Bulletin of United States Bureau of Labour Statistics*, November, 1921, and "The Functions of the Courts in Enforcing the Wisconsin Civil Service Law," by W. G. Rice, *Wisconsin Law Review*, Vol. 2, October, 1923.

**Personnel System of the National Government.** Information regarding the number, character and compensation of federal employees is to be found in the following documents:

Tables showing the Number and Positions in the Executive Civil Service of the United States, Classified and Unclassified, on June 30, 1896; Their compensation by Grades and Classes and their Status under Civil Service Rules. Compiled by Theodore De Land, U. S. Civil Service Commission, 1897.

The Executive Civil Service of the United States. Bulletin No. 12, U. S. Bureau of the Census, 1904.

Statistics of Employees, Executive Service of the United States, Bulletin No. 94, U. S. Bureau of the Census, 1908.

Official Register of the United States. U. S. Bureau of the Census. Published biennially until 1921, annually in abridged form, since 1925

General Information in regard to the United States Civil Service. Pamphlet. U. S. Civil Service Commission, 1923

Annual Reports of the U. S. Civil Service Commission  
The Budget, Annually. U. S. Bureau of the Budget

The budget contains two specially compiled statements, the one showing the average number of employees, average salary rate, and total salaries paid of the personnel of the executive departments and independent establishments in the District of Columbia classified under the classification act of 1923, classified by services, grades, and departments or establishments; the other summarizing this information for all services and grades combined by departments and establishments.

For general information the most important source of information is the annual reports and other publications of the United States Civil Service Commission. Special reference may be made to the Twenty-first Annual Report, 1905, which contains a chronological list of references to Congressional Documents and a separate list of reports issued by the executive services bearing upon personnel matters. The "Report of the Congressional Joint Commission on Reclassification of Salaries" and the other documents listed under "Classification of Personnel: National Government," though primarily concerned with the classification problem, contain a great mass of valuable data regarding other phases of personnel administration. Other official publications of value are:

Report from the Committee on Civil Service and Retrenchment (Pendleton Report) S. Rep. 576, 47th Cong. 1st Sess., 1882. Serial 2006

Methods of Appointment. Appendix No. 1, Reports of the President's Commission on Economy and Efficiency. H. Doc. 670, 62d Cong., April, 1912. Serial 6298

Letter from the President of the Civil Service Commission Transmitting Information in Response to Senate Resolution of February 15, 1912, Relative to Persons Admitted into the Classified Civil Service through Examinations or Otherwise. Sen. Doc. 442, 62d Cong., March 20, 1912. Serial 6175

During the war the national government found itself confronted with many problems of employment management. The results of its studies having in view the solution of these problems have been in part published. The most important of these publications are: "Handbook on Employment Management in the Shipyard," 1918; "Shipyard Employment," prepared by Bureau of Vocational Guidance, Harvard University, 1918, for the Emergency Fleet Corporation; "Report of the Shipyard Employment Managers' Conference," 1918, issued by the Emergency Fleet Corporation; and "The Personnel System of the United States Army in 1919," 2 volumes, issued by the War Department.

Turning to private publications, especial mention should be made of "The Federal Service, A Study of the System of Personnel Administration of the United States Government," by Lewis Mayers, Institute for Government Research, Studies in Administration, 1922. This volume gives what is probably the most comprehensive study that has ever been made of the personnel system of a government. In addition to giving a detailed description of the system, it subjects this system to critical examination with the view of pointing out wherein it fails to meet the requirements of a proper system of personnel administration.

Among periodical articles relating specially to the personnel system of the national government, mention may be made of: "Some Phases of the Federal Personnel Problem," by Lewis Mayers, American Political Science Review, Vol. 14, May, 1920; and "Efficient Organization of the Personnel in Administration," by W. F. Willoughby, Proceedings of the Academy of Political Science, Vol. 10, January, 1923.

For current information regarding personnel matters "The Federal Employee," official organ of the National Federation of Federal Employees, published monthly at Washington, may be consulted with profit.

**Personnel Systems of the States and Municipalities.** The primary sources of information regarding personnel administration in the state and cities have been indicated under the heading "Public Personnel Administration: General." Secondary sources are chiefly in the form of articles in periodicals, addresses, and pamphlets, of which it is not practicable to give a complete enumeration. Mention, however, should be made of the following as presenting recent and unusually careful studies of the problems that confront municipalities in organizing and determining the functions of civil service commissions: "The Character and Functioning of Municipal Civil Service Commissions in the United States," Report of the Committee on Civil Service, Governmental

Research Conference of the United States and Canada, Submitted at the Annual Meeting at Cleveland, June 1-3, 1922; "Employment Management in Municipal Civil Service: A Program," Report of the Committee to the National Municipal League, 1922; "Conditions of Municipal Employment in Chicago: A Study in Morale," Report submitted to the City Council by Leonard D. White, January 10, 1925; "The Merit System in Chicago from 1895 to 1915," by Joseph B. Kingsbury, Public Personnel Studies, November, 1925, February, 1926, May, 1926, and June, 1926; "The Merit System in Chicago 1915 to 1923," by Joseph B. Kingsbury, Public Personnel Studies, November, 1926; "Progress in Municipal Civil Service: A Review of Recent Reports," by F. W. Coker, National Municipal Review, Vol. 5, October, 1916; "Personnel Policies of the State of Pennsylvania," Report of the Pennsylvania Civil Service Commission, January, 1923; "The Work of the Board of Examiners of the New York City Board of Education," by Fred Telford Public Personnel Studies, December, 1924; "The Merit System under the City Manager," by Henry W. Marsh, Public Personnel Studies, December, 1925; "The Merit System under the Council-City Manager Government, by Col. C. O. Sherrill, Public Personnel Studies, November, 1926; "The Merit System in Government," Report of the Conference Committee on the Merit System, National Municipal League, 1926; and "Employment Management in Municipal Civil Service: A Report with Comments Pro and Con," National Municipal League, 1923. The last two named are of unusual value and contain the best consideration of the general problem now in existence. The scope of the last named can be seen from the following reproduction of its contents:

1. Report of the Committee
2. Co-operation between Personnel Authority and Department Heads, by L. D. White
3. The Selection of the Civil Service Commissioner, by Alfred Bettman
4. Civil Service and the City Manager
5. Report of the Civil Service Committee Reviewed from a Non-Political Administrative Viewpoint, by A. M. Waite
6. Committee's Proposals Unworkable, by Robert Moses
7. Vitalize Civil Service by Better Management, by F. O. Lowden
8. The Merit System and the Commission, by Robert Catherwood
9. Civil Service Reformers as Enemies of Good Government, by George C. Sikes
10. Co-operation rather than Protection as the Prime Function of Civil Service
11. The Personnel Functions in Public Service, by Allen M. Ruggles
12. Report Analyzed by a Chief Examiner, by Charles S. Shaughnessy
13. One Commissioner or Three? by C. R. Woodruff
14. Has the Merit System Gone to the Dogs? by Fred Telford
15. Spoils System Still an Active Factor, by W. D. Foulke

**Classification of Personnel: General.** The most important literature dealing with the problem of the classification of public personnel consists of the reports on the classification of the personnel of particular governments which are listed under subsequent heads. The problem as such has, however, been handled by a number of writers in contributions to periodicals, particularly "Public Personnel Studies," published by the Bureau of Public Personnel Administration. A list of the more important of these articles follows:

The Standardization of Public Employments, Municipal Research Nos. 67 and 76, November, 1915, August, 1916

Standardization of Salaries and Grades in Civil Service, by Robert Moses, American Political Science Review, Vol. 10, May, 1916

Standardization of Salaries in American Cities, by W. C. Beyer, National Municipal Review, Vol. 9, June, 1920

Employment Standardization in the Public Service, by W. C. Beyer, National Municipal Review, Vol. 9 (Supplement), June, 1920

The Uses of a Personnel Classification in the Public Service, by Lewis Meriam, Annals. Vol. 113, May, 1924

Methods of Developing and Administering Classification and Compensation Plans in the Public Service, by Fred Telford, Annals, Vol. 113, May, 1924

The Classification and Salary Standardization Movement in the Public Service, by Fred Telford, Annals, Vol. 113, May, 1924

How Shall Salaries of State Employees be Fixed? by Clyde L. King Annals, Vol. 113, May, 1924

The Origin of the Modern Occupational Classification in Personnel Administration, by Edwin O. Griffenhagen, Public Personnel Studies, September, 1924

The Uses of an Occupational Classification of Positions, Public Personnel Studies, October, 1924

The Principles and Technique of Preparing an Occupational Classification of Positions in the Public Service, by Edwin O. Griffenhagen, Public Personnel Studies, November, 1924

The Principles and Technique of Preparing a Plan of Compensation for Positions and Employees in a Large Organization, by Edwin O. Griffenhagen and Fred Telford, Public Personnel Studies, January, 1925

The Contents, Form and Arrangement of the Printed Classification and Compensation Plans, by Fred Telford, Public Personnel Studies, February, 1925

The Titles in an Occupational Classification Plan, by Fred Telford Public Personnel Studies, May, 1925

Mention, finally, should be made of the special volume published by the Bureau of Public Personnel Administration in 1927 "Proposed Classification and Compensation Plans for Library Positions." This undoubtedly is the most complete and careful study ever made of classifying for compensation and other purposes a

particular profession or class of employees. It was made for, and in close co-operation with, the Committee on Classification of Library Personnel of the American Library Association. It has a special importance as a case study and one relating to a profession for the whole country rather than a class of employees in a single government.

**Classification of Personnel: National Government.** The primary sources of information regarding the classification of federal employees are the reports of official commissions, hearings before congressional committees, reports of committees on bills providing for the classification of personnel, and the reports and other publications of the Civil Service Commission and the Personnel Classification Board. Following is a list of the more important of these documents:

- Committee on Departmental Methods (Keep Committee), Classification of Positions and Gradation of Salaries, 1907
- Report of the Congressional Joint Commission on Reclassification of Salaries, H. Doc. 686, 66th Cong., March 12, 1920. Serial 7672
- Reclassification of Salaries. Joint Hearings before the Committees on Civil Service, Congress of the United States. 62nd Cong. 1st sess, Relative to Reclassification of Salaries, May 17 to June 16, 1921
- Reclassification of Salaries. Hearings before the Sub-Committee of the Committee on Appropriations, U. S. Senate, on H. R. 8928. A Bill to Provide for the Classification of Civilian Positions within the District of Columbia and in the Field Service, 1922
- Reclassification of Salaries in the Federal Service. A Brief Prepared for the National Federation of Federal Employees by Robert Moses and Morris B. Lambie, 1920
- Report of the Senate Committee on Civil Service and Retrenchment on the Reclassification of Civil Service Employees. S. Rep. 486. 67th Cong., February 3, 1922. Serial 7950
- The Law and the Personnel Classification Board: Speech of Hon. Frederick R. Lehlbach of New Jersey (Chairman of the Committee on Civil Service in the House of Representatives) February 12, 1924
- This speech, as reprinted in pamphlet form, contains a valuable memorandum on the work of the Personnel Classification Board prepared by Mr. Lewis Meriam of the Institute for Government Research

Of periodical articles mention may be made of:

- The Classification of the Statistical Employees of the United States Government at Washington, by Lewis Meriam. Quarterly Publication of the American Statistical Association, Vol. 17, September, 1920
- The Classification and Compensation Plans for the Postal Service of the United States. Public Personnel Studies, November, 1925
- The Classification and Compensation of Some 100,000 Positions in the Federal Service of the United States Excepted from the Provisions of the Personnel Classification Act, Public Personnel Studies, March, 1926



**Classification of Personnel: States.** The chief source of information regarding the movement for the classification of personnel by the states is the reports of the official commissions and other bodies which investigated the subject or have undertaken the actual work of classification. The following is believed to be a substantially complete list of such reports in so far as they have been published:

#### *Illinois*

Classification of the Illinois Civil Service, Springfield. Comprising Schedule AA of the Rules of the State Civil Service Commission. In Effect April 19, 1918, Vol. 1 of Rules of Commission, 1918

#### *Massachusetts*

Report of the Special Committee of the Executive Council on the Standardization of Salaries in the State Service. Adopted by the Council and submitted to the General Court of 1918. Boston, 1918

Specifications and Rules for Classification of Personnel Service of the Commonwealth of Massachusetts. Issued by the Supervisor of Administration by Authority of Chapter 228 of the General Acts of 1918. Boston, 1919

#### *New Jersey*

Report on Reclassification and Salary Standardization of the Personnel Service in the New Jersey State Government, by J. S. Jacobs and company 1917

#### *New York*

First Report of the Committee on Civil Service of the Senate of the State of New York Appointed to Investigate the Civil Service of the State with Particular Reference to Salaries, Grades and Duties of Officers and Employees, March 27, 1916

#### *North Carolina*

First Report of the Salary and Wage Commission Regarding Standard Wages, Salaries, and Conditions of Employment Recommended for Positions in the Non-Institutional Departments and Agencies of the State with Headquarters at Raleigh, October, 1, 1925.

#### *Ohio*

Standard Specifications for Positions in the Classified Service of the State of Ohio. State Civil Service Commission of Ohio, Columbus 1917

#### *Virginia*

Report on the State Personnel Situation in Virginia to the General Assembly, by Governor E. Lee Trinkle. Sen. Doc. No. 1, 1926

Following is a list of recent contributions to periodicals dealing with the classification of personnel in particular states:

Development and Administration of Classification and Compensation Plans in New Jersey, by Charles P. Messick. Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924

The Development and Administration of Classification and Compensation Plans in the State of New Jersey, by Charles P. Messick and Fred Telford, Public Personnel Studies, April, 1925.

- The Policies and Procedure Involved in Developing a Compensation Plan for the Massachusetts State Service, Public Personnel Studies, December, 1926
- The Classification Plan for the Massachusetts State Service, Public Personnel Studies, January, 1927
- Pennsylvania Classifies Her Employees, by Clyde L. King and Richard Lansburgh, National Municipal Review, Vol. 13, January, 1924
- Classification of Positions and Salaries in the Service of the State of Pennsylvania, by Richard Lansburgh, Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924

**Classification of Personnel: Cities.** Following is a list of official reports and articles dealing with the matter of the classification of personnel in particular cities:

#### *Buffalo*

- Salary Standardization Ordinance of the City of Buffalo. Effective July 1, 1918

#### *Detroit*

- Official Classification of Positions in the Municipal Government of Detroit. Prepared by the Civil Service Commission, 1920
- The Detroit Classification and Salary Standardization Study of 1924. by Fred Telford and Frank O. Everett, Public Personnel Studies, March, 1925

#### *Milwaukee*

- Standardization of Salaries of the City of Milwaukee. Report of the Milwaukee Bureau of Municipal Research, November 4, 1913
- Review of Movement for Standardization of Public Employments and Appraisal of the Proposed Salary Standardization Plan for the Milwaukee City Service.....by J. L. Jacobs, Chicago, 1916
- Classification and Standardization of Personnel Service and Summary Distribution and Comparative Salaries of Offices and Positions in the Milwaukee City Government with Constructive Recommendations, and Regulations for Positive Employment Administration, Prepared at the Request of the Milwaukee Board City Service Commissioners by L. J. Jacobs and company. Chicago, 1917

#### *Minneapolis*

- Report on the Classification of Positions and Schedules of Compensation, City of Minneapolis, Including Standard Classification and Specifications of Duties, Qualifications, Lines of Promotion and Suggested Salaries and the Reclassification of Existing Offices and Positions with Other Constructive Recommendations on the Personnel Service. Prepared on the Authorization of the Joint Salary Survey Committee of the Board of Estimate and Taxation and the Civil Service Commission by J. L. Jacobs and company. Chicago, June, 1922

#### *New York*

- Report of Committee on Standardization of Salaries and Grades. Board of Estimate and Apportionment, City of New York, December, 26, 1913

Standard Specifications for Personnel Service. Proposed by the Bureau of Standards for the Board of Estimate and Apportionment of the City of the New York, June, 1916; also a 1917 edition prepared by Bureau of Personnel Service

New York City Civil Service Commission, Rules and Classification as Described and Established December 4, 1903, with Amendments to September 12, 1921....The General Regulations of the Commission: The Civil Service Law, New York, 1921

#### *Philadelphia*

Classification of Positions in the Classified Service of the City of Philadelphia, with Schedule of Compensation. Approved by the Civil Service Commission, October, 1920. Philadelphia, 1920.

#### *St. Louis*

Classification and Standardization and Description of Duties of Positions in the Classified Service of the City of St. Louis. Efficiency Board of St. Louis 1918

Laws and rules governing Efficiency Board Classification and Standardization and description of duties and positions in the Classified Service of the City of St. Louis. Efficiency Board of St. Louis, 1924

#### *St. Paul*

Standardizing Salaries. Report for Civil Service Bureau of St. Paul by J. B. Probst, Chief Examiner, Civil Service Bureau of St. Paul, 1922

#### *San Diego*

Rules (Including Classification) of the Civil Service Commission City of San Diego, California, 1923

**Classification of Personnel: Canada.** Exceptionally careful studies have been made of the problems of the classification of the public personnel of Canada. The results of these studies are to be found in the following documents:

Report of Transmission to Accompany the Classification of the Civil Service of Canada Describing the Schedules for the Classification of Positions and the Standardization of Compensation Explaining Their Needs, Basis and Use and the Method of Their Preparation and Including a Discussion of the Problem of Personnel in the Civil Service of Canada with Recommendations for a Comprehensive Employment Policy and Plan, by Arthur Young and company. Ottawa, 1919

The Classification of the Civil Services of Canada Showing All Classes Alphabetically Arranged with Definitions, Qualifications, Principal Lines of Promotion and Compensation. Authorized by the Parliament of Canada and Prepared under the direction of the Civil Service Commission, by Arthur Young and company, Ottawa, 1919

The Civil Service of Canada. First and Final Reports of the Special Committee of House of Commons of Canadian Parliament Appointed to Inquire into the Operation of Chapter 12, 8-9, George V. An Act Respecting the Civil Service of Canada, etc. Ottawa 1923 (House of Commons Journals, Vol. 60, 1923. Appendix No. 5)

Official Report of the Evidence Taken by the Special Committee Appointed to Inquire into the Operations of Chapter 12, 8-9 George V. An Act Respecting the Civil Service of Canada. Ottawa, 1923. (Including in preceding item)

Civil Service Commission. The Classification of the Civil Service of Canada, setting forth Classes of Positions and Rates of Compensation for Each Class, Revised to September 1, 1923, Ottawa, 1923

### **Organization and Work of Central Personnel Services.**

Much the best consideration of the problems and work of central personnel agencies is to be found in the volume "The Merit System in Government: Report of the Conference Committee on the Merit System." Bureau of Public Personnel Administration, published by the National Municipal League, 1926. The Conference Committee making this report embraced representatives from all the leading organizations, official and private, having to do with matters of public personnel administration, and the object sought was to reach an agreement upon policies in respect to public personnel administration. The report is given over largely to a draft of a model personnel administration act, with comments upon its provisions. When agreement could not be reached, alternative lines of action were indicated. Especial emphasis is given to the consideration of the character of the central agency that should be provided, its legal status and functions.

Among recent articles bearing upon the organization and work of central personnel agencies may be mentioned the following: "Saving Dollars and Energy by Personnel Research. An Investigation in the Interest of the Postal Service," by L. J. O'Rourke, *Journal of Personnel Research*, Vol. 4, January and February, 1926; "The Personnel Agency as an Integral Part of Public Administration," by Charles P. Messick, *Public Personnel Studies* January, 1927; "A Draft of a Short Act to Create a Public Personnel Agency," *Public Personnel Studies*, February, 1927; "The Content, Design and Use of the Roster Card," *Public Personnel Studies*, August, 1925; "The Files and Records of a Public Personnel Agency," *Public Personnel Studies*, July 1925; "The Politician as a Personnel Manager: The Cost to the Taxpayer," by Leonard D. White, *Annals of the American Academy of Political and Social Science*, vol. 113, May, 1924; "The Organization and Work of New Jersey State Civil Service Commission," *Public Personnel Studies*, June, 1927; and "Needed Personnel Legislation, Federal and Local," by Fred Telford, *Public Personnel Studies*, June, 1927.

**Service Rating Systems.** For information regarding the problem of devising and operating systems for determining the efficiency of public employees in performing their work, recourse must be

had to the annual reports of civil service commissions, proceedings of the National Assembly of Civil Service Commissions, the publications of the National Civil Service Reform League, and the like. Specific reference, however, may be made to the annual reports of the United States Bureau of Efficiency, which devote considerable attention to the establishment of efficiency rating systems in the national government and to the "Report on Methods of Keeping Efficiency Records of Employees in the National Bank Redemption Agency of the Department of the Treasury," contained in Report of the President's Commission on Economy and Efficiency (H. Doc. 1252, 62d Cong., January 8, 1913). The subject has also been handled in the following articles appearing in periodicals.

Securing Competency in Bank Examiners, by Petter G. Cameron  
Annals of the American Academy of Political and Social Science  
Vol. 113, May, 1924

The Principles Involved in Securing Service Ratings as Exemplified,  
in a Large Bank, by Forrest A. Kingsbury, Public Personnel  
Studies, March, 1925

A Method of Rating Employees for Promotion and Force Reduction,  
by Warren G. Bailey, Public Personnel Studies, September,  
1925

A Service Rating Plan Used in Appraising the Qualifications and  
Work of Employees, by Warren G. Bailey, Public Personnel,  
Studies, March, 1926

Service Ratings for Employees in Public Utility Industries, by War-  
ren G. Bailey, Public Personnel Studies, August, 1926

Service Ratings for Office Employees, by Fred Telford, American  
Management Association, 1926

**Recruitment Technique.** The civil service commissions have always had to concern themselves with the technical problem of devising and applying tests for the recruitment of public personnel. Their reports and tests consequently represent the primary source of information regarding this phase of personnel administration. The development within recent years of the idea of testing intelligence or capacity, as distinguished from possession of information, and of giving greater weight to such factors as experience and personal characteristics, has tended to change materially the character of the criteria used in making selections, and this change has resulted in the appearance of studies of the character of tests that should be employed. The most valuable studies of this kind are to be found in "Public Personnel Studies," published by the Bureau of Public Personnel Administration, Washington, D. C. The files of this periodical contain a large number of suggested tests for particular positions and also a certain number of papers of a more general character. Among the latter may be mentioned: "Intelligence Tests in the Civil Service," by L. L. Thurston, October, 1923; "The Value of Photographs and Handwriting in Estimating

Intelligence," by Katharine Omwake, January, 1925; "The Relation of Abstract Intelligence to Ability to Spell," by Katharine Omwake, July, 1925; "The So-called Guessing Element in Written Tests," October, 1925; "Methods of Selecting Employees to Fill High Grade Positions in the Public Service," March-April, 1924; "A Method of Rating the History of Achievements of Applicants for Positions," July, 1925; and "Teacher Examining and Related Work in Some Eastern States and Cities," by J. B. Sullivan, April, 1925. Following are articles in this field appearing in other periodicals: "Progress in Civil Service Tests," by Herbert A. Filer, Chief Examiner, U. S. Civil Service Commission, and L. J. O'Rourke, *Journal of Personnel Research*, March, 1923, reprinted as a pamphlet by the Civil Service Commission; "Employment Tests in the Public Service," by Albert S. Faught, *Annals of the American Academy of Political and Social Science*, Vol. 113, May, 1924; and "The Hire of Firemen and Policemen," by William C. Beyer, *Annals of the American Academy of Political and Social Science*, Vol. 113, May, 1924. The work of Filer and O'Rourke in this field is set forth in recent annual reports of the United States Civil Service Commission.

**Training of Public Employees.** Due to the fact that comparatively little has been done in the United States in the way of training persons especially for the government service or employees after they have entered the service, the literature on the subject is not great. Following is a list of contributions bearing on this subject. "Reports of the Committee on Practical Training for Public Service," American Political Science Association, *Proceedings*, 1913 and 1914; "The Public Servant," issued monthly by the Society for the Promotion of Training for Public Service, Madison, Wis., February, 1916-April, May, 1917; Columbia University, "Report of the Committee on Training for Public Service," March 27, 1915; "Training for Municipal Service," *Municipal Research*, No. 68, December, 1915; "Training School for Public Service, Bureau of Municipal Research, New York City," Announcement, 1911, and annual reports; "Service Schools for Federal Employees." Letter from Chief of the United States Bureau of Efficiency, Transmitting in Response to Senate Resolution of January 7, 1920, Report "on the Desirability of Establishing a Training School for Federal Employees in the district of Columbia, Sen. Doc. 246, 66th Cong., March 3, 1920, Serial 7671.

**Civil Service Retirement Systems.** Much the most valuable consideration of the whole problem of pensioning or providing for the retirement of public employees and of the more special problem of the retirement of teachers in the public schools is to be found in the two volumes: "Principles Governing the Retirement of Public

Employees," by Lewis Meriam, Institute for Government Research, Principles of Administration, 1918, and "Teachers' Pension Systems in the United States," by Paul Studensky, Institute for Government Research, Studies in Administration, 1920. Both of these volumes contain valuable bibliographies, in which are listed all of the more important reports giving the results of official investigations.

A great deal of attention has been paid to the problem of devising proper retirement systems by the Carnegie Foundation for the Advancement of Teaching and the subject is fully discussed in the annual reports and bulletins of that body. A more general consideration of the desirability of establishing systems for the retirement of public employees is to be found in the publications of the National Civil Service Reform League.

In addition to the reports and other writings cited in the two volumes by Mr. Meriam and Mr. Studensky, mention should be made of the following: "Report of the Illinois Pension Laws Commission," 1917; "Report of the Illinois Pension Laws Commission, 1918-1919, a Proposed Standard Plan for a Comprehensive and Permanent System of Pension Funds," 1919; "Report of the New York Commission on Pensions," 1920; "Report of the Milwaukee Pension Laws Commission," 1920; "Report of the Massachusetts Joint Special Committee on Pensions," 1921. "Special Report on the Cost of Retirement Systems for State and County Employees in Massachusetts" by State Bureau of Statistics, 1911; "Report of the Pensions and Retirement Fund Commission, New Jersey, Appointed under the Joint Resolution approved March 29, 1917," 1918; and "A Sound Policy for Municipal Pensions," Report of the Bureau of State Research of the New Jersey State Chamber of Commerce, Newark, N.J., State Research Section, In "New Jersey." No. 8, May 1919.

A recent periodical article on the subject is: "Retirement System and Morale in Public Service," by H. H. Baish, Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924.

**Civil Service Retirement System of the National Government.** Information regarding the civil service retirement system of the national government will be found in the following documents: "Superannuation in Classified Civil Service," Committee on Departmental Methods (Keep Commission) 1908; "Hearings before the Committee on Reform in the Civil Service of the House of Representatives, Retirement Fund for Superannuated Employees in the Civil Service, March 10 to April 13, 1908;" "Savings and Annuity Plan Proposed for Retirement of Superannuated Civil

Service Employees," by Herbert D. Brown (S. Doc. 745, 61st Cong., 1911); "Retirement from the Classified Civil Service of Superannuated Employees." Message from the President, Transmitting Report of the Commission on Economy and Efficiency on the Subject of Retirement from the Classified Civil Service of Superannuated Employees (H. Doc. 732, 62nd Cong., 1912); "Retirement of Employees in Classified Civil Service": Hearings before the Senate Committee on Civil Service and Retrenchment, 65th Cong. 2nd sess., August 28, 1918; Annual reports of the Commissioner of Pensions; the six annual reports of the Board of Actuaries of the Civil Service Retirement and Disability Fund, 1921-1926; "Handbook containing Abstracts of Decisions and Opinions and Rules of Procedure Relating to the Retirement Act of May 22, 1920, and Amendments," published by Pension Office and prepared under the direction of Washington Gladden, Commissioner of Pensions, by John S. Beach, Chief of Retirement Division, and Marshall V. Andrews, Reviewer Retirement Division, 193; and "Retirement of Federal Employees." Joint Hearings before the Committees on Civil Service, January 14-17, 21-23, 1924.

The report of the Economy and Efficiency Commission mentioned above contains as appendices three interesting reports by Herbert D. Brown on the civil service retirement systems of Great Britain, New Zealand, and New South Wales, which had previously been published as Sen. Docs. 290 and 420, 61st Cong., 1910. For additional references to early material, see bibliography in Meriam's "Principles Governing the Retirement of Public Employees," mentioned under the heading "Civil Service Retirement Systems." A recent article of interest is "The Federal Civil Service Retirement Law," by John T. Doyle, *Annals of the American Academy of Political and Social Science*, Vol. 113, May, 1924.

**Personnel System of Great Britain.** Detailed information regarding the British personnel systems is contained in the annual reports of the Civil Service Commissioners and the reports of special parliamentary enquiries. An excellent list of these reports is given in the "Bulletin of the British Library of Political Science," London School of Economics, No. 2, April, 1913. As this publication is not readily available, the official publications there given are listed below:

- Papers Respecting the East India Company's Charter 5, parts, 1833
- Report from the Select Committee on Miscellaneous Expenditure (House of Commons, No. 543), 1848
- Reports and Papers on the Reorganization of the Permanent Civil Service, 2 parts, 1854-55



Hansard's Parliamentary Debates. 1854, Vol. CXXXI, March 13; and 1856, Vol. OXLI, April 24

Papers Originally Printed in 1850 Respecting the Emoluments of Persons in the Permanent Employment of the Government. London, 1856

Report on the Organization of the Permanent Civil Service, together with a Letter from the Rev. B. Jewett, 1854

Reports of Committees of Inquiry into Public Offices and Papers Connected Therewith. London, 1860

Report of Select Committee on Civil Service Appointment, 1860. (House of Commons. No. 440)

Three Reports of Committee on Civil Service Expenditure, 1873. (House of Commons. Nos. 131, 248, and 352)

Report from Select Committee on Civil Service Writers, 1873

The Selection and Training of Candidates for the Indian Civil Service. (C. 1446) 1176 (Contains Lord Macaulay's Report)

Three Reports of the Civil Service Inquiry Commission. (Lord Playfair, C. 1113 and 1113-1, C. 1226, C. 1317, and C. 1444) 1875, 76

Four Reports of the Royal Commission Appointed to Inquire into the Civil Establishments of the Different Offices of State at Home and Abroad. (Lord Ridley's Commission, C. 5226, C. 5545, C. 5748, and C. 6172) 1887, 90

Report from the Select Committee on Post Office Servants. (The Hobhouse Commission. House of Commons. Nos. 266 and 380) 1907

Civil Service Commission, Orders in Council, Notices in the "London Gazette," etc., Relating to Examination for the Home Civil Service, the Army, the Civil Service of India, 1909

Royal Commission on the Civil Service. (Cd. 6209-10 Cd. 6534-35) 1912

Order in Council, dated January 10, 1910, Relating to the Civil Service

Annual Reports of H. M. Civil Service Commissioners, especially 1856 (first Report), 1871 (C. 445), and 1905 (Cd. 2656)

Annual Estimates for the Civil Service and Appropriation Accounts

For an excellent account of the movement for civil service reform in England, see Dorman B. Eaton's well-known work, "Civil Service in Great Britain: A History of Abuses and Reforms and Their Bearings upon American Politics," 1880. The author, while Chairman of the United States Civil Service Commission under President Hayes, spent a year in London at his own expense, studying the civil service question. The results of his studies were transmitted to Congress in the form of a report that was published as a House Document in 1879. This report was later republished by Harper and Bros., both in book form and as an issue in their "Franklin Square Library."

A more recent work dealing with British conditions is "The Civil Service of Great Britain," by Robert Moses, Columbia Studies in History, Economics and Public Law, 1914. In this work emphasis is placed on the success of the system of competitive examination and the parallel with the United States.

A work of great value dealing with a special phase of the personnel problem is "Colonial Civil Service," by A Lawrence Lowell, 1900, which describes and discusses the system of selecting and training colonial officers in England, Holland, and France.

Another work, "The Development of the Civil Service: Lectures Delivered before the Society of Civil Servants, 1920-21," London, 1922, with preface by Viscount Haldane, throws light upon certain special aspects of the British personnel system. Mention may also be made of "Pitman's Civil Service Guide: How to Enter His Majesty's Civil Service. A Popular Description of the Ordinary Government Appointments with the Regulations, Age Limits and Previous Examination Papers," by A. J. Lawford Jones, London (undated); "The Fixing of Wages in Government Employment," by E. Colston Shepherd, London, 1923; "An Organized Civil Service," by Viscount Haldane, *Journal of Public Administration*, Vol. 1, January, 1923.

**Public Materiel or Supply Administration: General.** There is an abundant literature dealing with the problems of materiel or supply in private business. The only work dealing with this problem as concerns government is "Principles of Government Purchasing," by A. G. Thomas, Institute for Government Research, Principles of Administration, 1919. The subject, however, is handled in a considerable number of the reports of the economy and efficiency commissions, in all of the city surveys, and in special publications of private government research agencies, lists of which have elsewhere been given. Much of this consideration centres around the question of the desirability of providing for the centralization of purchasing, a bibliographic note in reference to which follows. Reference should also be made to the two organizations The National Association of Purchasing Agents, which acts as a central agency to advise purchasing officers and publishes a monthly entitled "The Purchasing Agent," and the National Conference of Government Purchasing Agents, which publishes a "Bulletin" the first issue of which appeared in January, 1924.

**Materiel or Supply Administration of the National Government.** No comprehensive investigation has ever been made of the whole system of materiel administration of the national government. Much the most valuable body of information bearing on this subject is that contained in the publications of the United States Bureau of the Budget, consisting of the following: Annual reports of the Director of the Bureau of the Budget, 1922-date; "Compilation of Principal Federal Statutes Relating to Public Contracts, Prepared by the Interdepartmental Board of Contracts and Adjustment," 1922; "Report to the President by the Director of the Bureau of the Budget, Transmitting Reports of the Chief Co-ordina-

tor, General Supply, and the Chairmen of the Co-ordinating Board Established by Executive Order for the Co-ordination of the Routine Business of the Government," 1922; "Report of the President of the United States on Forms of Government Contracts," December, 1911 (Mimeographed Copy of Report issued by the Bureau of the Budget in 1923); "Digest of Decisions on Contracts of the Comptroller of the Treasury and Comptroller General July 13, 1920, to January 18, 1922," 1925; "Standardization of Government Contracts. Tentative Contract Forms Consisting of General Instructions to Bidders, Invitations for Proposals, Proposal, Contract, Submitted by the Interdepartmental Board of Contracts and Adjustments for Constructive Criticisms and Suggestions," 1922.

Mention may also be made of following: "Purchase of Departmental Supplies," U. S. Committee on Departmental Methods (Keep Commission), 1906; "Government Contracts," U. S. Committee on Departmental Methods (Keep Commission), 1907; "Lecture on Statutory Provisions Relating to Government Contracts," Delivered before the Engineering School, U. S. Army, 1908, by John Mason Brown, Pamphlet, Baltimore, Md., 1908; "Centralized Purchasing for the Federal Government, by A. G. Thomas, National Municipal Review, Vol. 13, February, 1924.

**Central Purchasing.** A large part of the consideration of problems of supply by economy and efficiency commissions centres around the question of the desirability of providing for a system of central purchasing. Much material of value can, therefore, be found in these reports. Of equal or greater importance are the annual reports of the organs of general administrative control that have been established by the states and the central purchasing agencies that have been created by the states and municipalities. Of great value also is the consideration of the subject contained in the various city surveys.

Numerous contributions on the subject are also to be found in the pages of the "National Municipal Review," the "American City," and other periodicals devoted to municipal affairs. The Civic Development Department of the Chamber of Commerce of the United States prepared a typewritten bibliography of central purchasing in 1923, which can probably be had upon request.

Following are some special reports and articles dealing with this subject: "Central Purchase and Distribution of Supplies for the City of New York and Legislative Measures to Make the Plan Effective," by William A. Prendergast, Comptroller, March 15, 1913; "A Proposed Method of Central Purchasing for the City of New York," Bureau of Municipal Research, New York City, Manuscript, October, 1914; New York City, Mayor's Central

Purchasing Committee, "Co-operative Centralized Purchasing in the City of New York. Results of a year's Practical Test of Central Purchasing in the Mayor's Department," 1915; New York State, "Report of the Commission on Methods of Purchasing Materials, Supplies, etc.," transmitted to the Legislature February 4, 1918; Boston Finance Commission, "Report of an Investigation into the System Used in Purchasing and Distributing Materials and Supplies," January 16, 1915; State of Washington, "Report to the Administrative Board Embodying the Methods and Results of the Division of Purchasing, Department of Business Control," by W. J. Hays, Director, Department of Business Control, October 1, 1922; Chicago Public Efficiency Bureau, "The Purchase of Supplies and Materials" (Contained in "Unification of Local Governments in Chicago," 1917); "Why the Administrative Boards and Departments of the City of Milwaukee Should Combine Their Purchasing Power," Milwaukee Citizens Bureau of Municipal Efficiency, Mimeographed manuscript, 1917; "Digest of Laws on State Purchasing Departments," by William Webb and C. Eveleen Hathaway, New York State Library, 1922 (Manuscript); "The Coming of Centralized Purchasing in State Governments," by A. E. Buck, National Municipal Review, Vol. 9 (Supplement), February, 1920; "Modern Purchasing Starts Well in San Francisco," by W. H. Nanry, National Municipal Review, Vol. 13, March, 1924; "Centralized Purchasing in Governments of the United States and Canada," by Russell Forbes, Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924; "Municipal Purchasing and Inspection Methods," by Russell Forbes, Illinois Municipal Review, Vol. 3, July-August, 1924; "Centralized Purchasing in City Manager Municipalities," by Russell Forbes, National Municipal Review, Vol. 13, November, 1924; "Centralized Purchasing Agencies in State and Local Governments," by Milton Conover, American Political Science Review, Vol. 19, February, 1925; "Results of Standardization of Supplies," by P. G. Andrew, Annals of the American Academy of Political and Social Science, May, 1924; and "Operation of Centralized Purchasing in New Jersey," by Joseph M. Coyle, Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924.

**Standardization of Specifications.** All general literature on the supply problem, and particularly that dealing with centralized purchasing, devotes much attention to the question of the preparation of standard specifications. Following are certain references to works and articles dealing specially with this subject:

Year Book of the American Engineering Standards Committee, 1926  
 Handbook of Specifications for Commodities Purchased Out of Taxes,  
 by A. S. McAllister, Engineer Physicist, U. S. Bureau of Stand-  
 ards, Management and Administration, Vol. 8, May, 1924

Results of Standardization of Supplies, by P. G. Agnew, Annals,  
 Vol. 113, May, 1924

Results of the Pennsylvania Plan for Standardization and Purchas-  
 ing Supplies. by Walter G. Scott, Annals, Vol. 113, May, 1924

Standardization of Printed Forms and Stationery, by C. L. Barnum,  
 Annals, Vol. 113, May 1924

Standards Year Book, U. S. Bureau of Standards, 1927

**Financial Administration: General.** There is no work in Eng-  
 lish dealing in a comprehensive way with all features of public  
 financial administration. The so-called treatises on public finance  
 have, without exception, been written as contributions in the field  
 of economics rather than that of government as a branch of politi-  
 cal science. The great bulk of their space is devoted to taxation and  
 other sources of government revenue. As regards expenditure  
 little more is given than a brief statement regarding the growth of  
 government expenditures and its social significance. These works  
 can, however, be consulted for their incidental reference to matters  
 of financial administration. The more important works of this  
 character are: "The Science of Finance: An Investigation of  
 Public Expenditures and Public Revenues," by H. C. Adams,  
 1898; "Problems of Public Finance," by H. L. Lutz, 1924; and  
 "Problems of Public Finance," by Jens P. Jensen, 1924. The work  
 of Adams gives some consideration to the problem of accounting  
 and reporting, and what is said is direct to the point and of value.  
 The work of Lutz and Jensen give a brief mention of the budget  
 problem. A recent work dealing especially with the financial ad-  
 ministration of cities is "Municipal Finance," 1926, by A. E.  
 Buck, in collaboration with staff members of National Institute of  
 Public Administration. Another book of great value as furnishing  
 the historical background to a study of the problem of financial  
 administration of the national government is "Financial History of  
 the United States," by Davis R. Dewey, 8th ed., 1922.

The modern movement for the improvement of methods of  
 financial administration has largely centred around the two ques-  
 tions of the establishment of a proper budget system and the  
 reorganization of the system of accounting and reporting so as  
 to make it conform to modern principles of accountancy. Most  
 of the references to financial administration can, therefore, be  
 given under one or the other of those two heads.

**Financial Statistics.** No very satisfactory data regarding the  
 revenues and expenditures of governments for a long period of

years are available. For the national government reference may be made to "The Finances of the United States from 1775 to 1789 with Special Reference to the Budget," by C. J. Bullock (Bulletin University of Wisconsin, 1895), and "Expenditures of the United States Government 1791-1907; General Revenues, Postal Revenue, Per Capita Expenditure," Compiled by the Director of the Census for the Committee on Appropriations of the House of Representatives, 1908. Totals of cash income and outgo, classified under a few main heads for a period of years, are given in the annual reports of the Secretary of the Treasury and are reproduced in part in the annual "Statistical Abstract," published by the Department of Commerce. Statistics of collections of internal revenue are given in the annual reports of the Commissioner of Internal Revenue and in the "Statistical Abstract." Statistics of the collection of customs dues, classified according to commodities, are given in the "Foreign Commerce and Navigation of the United States for the Calendar Year," published by the Department of Commerce.

Recent publications of great value are : two reports of the Federal Trade Commission, "Taxation and Tax-Exempt Income," Sen. Doc. 148, 68th Cong., 1924, and "National Wealth and Income," Sen. Doc. 126, 69th Cong., 1926; and two reports by the National Industrial Conference Board, "Tax Burdens and Public Expenditures," 1925, and "Cost of Government in the United States," 1926.

Among periodical articles dealing with the subject of the expenditures of the national government, mention may be made of "The Growth of Public Expenditures," by C. A. Conant, *Atlantic Monthly*, Vol. 87, January, 1901; "The Growth of Federal Expenditures," by C. J. Bullock, *Political Science Quarterly*, Vol. 18, March, 1903; "The Historical Development of National Expenditures," by Herbert D. Brown, *Proceedings of the Academy of Political Science*, Vol. 9, July, 1921; "Expenditures and Revenues of the Federal Government," by Edward B. Rosa, *Annals of the American Academy of Political and Social Science*, Vol. 95, May, 1921; and "The Trend in Federal Expenditures," by Charles P. White, *Annals of the American Academy of Political and Social Science*, Vol. 113, May 1924.

The subject of the public debt of the national government is handled in the following works :

R. A. Bayley, "History of the National Loans of the United States from July 4, 1776 to June 30, 1880," prepared for the Tenth U.S. Census, and in "Statistics of Public Indebtedness," 1881

W. F. DeKnight, "History of Currency, of Country and Loans of United States from Earliest Period to June 30, 1896," 1897, supplements Bayley's work

Wm. Raymond, "National Government Loans," Boston. 1925, and "Our Public Debt," New York, 1919

For financial statistics of the states and municipalities the best sources of information are the publications of the United States Bureau of the Census. Efforts to secure and present data of this character were made in connection with the decennial censuses from 1850 to 1900 in the reports entitled "Wealth, Debt and Taxation," and in annual volumes entitled "Financial Statistics of States" and "Financial Statistics of Cities," and in the special publication "Wealth, Public Debt, and Taxation, 1922." Much of the best private work on this subject is "The Post-War Expansion of State Expenditures," by Clarence Heer, National Institute of Public Administration, Studies in Public Administration, 1926. Information of value is also to be found in the following official reports and periodical articles: "State Expenditures, Tax Burden and Wealth," New York Joint Committee on Taxation and Retrenchment, February 11, 1926; "Debt of the State of New York, Past, Present and Future," New York Joint Committee on Taxation and Retrenchment, March 1, 1926; "The Cost of Government of Wayne County, Michigan," Public Business, Detroit Bureau of Governmental Research, Vol. 3, December 31, 1924; "Budget Facts and Financial Statistics of Multnomah County (Portland) Oregon for 1924 (the annual report of the Tax Supervising and Conservation Commission of Multnomah County, 1924); Biennial reports of the Minnesota Tax Commission; "Finance Statistics of the American Commonwealths," by E. A. Seligman. Publications of the American Statistical Association, New series, Vol. 1, December, 1889; "The Trend in Recent State Expenditures," by Austin F. MacDonald, Annals of the American Academy of Political and Social Science, May, 1924; "The Trend in City Expenditures," by Lane W. Lancaster, Annals of the American Academy of Political and Social Science, May 1924; "The Trend in County Revenues," by Harry A. Barth, Annals of the American Academy of Political and Social Science, May, 1924; "Are We Spending Too Much for Government? I, The Trend of Federal Expenditures," by J. L. Keddy, National Municipal Review, Vol. 16, April, 1927, and "Are We Spending Too Much for Government? II, State Expenditures: Has Their Upward Climb Been Justified? by Clarence Heer, National Municipal Review, Vol. 16, May, 1927.

**Budget System : National Government.** Official material relative to the budget system of the national government falls into two classes: that issued prior to the enactment of the "Budget and Accounting Act, 1921," by which the budget system was established and having for its purpose to make known the need for the adop-

tion of such a system and the character that it should have; and that subsequently issued bearing upon operations under the system.

The most important documents falling in the first class are: "The Need for a National Budget", Message from the President of the United States Transmitting Report of the Commission on Economy and Efficiency on the Subject of the Need for a National Budget, (H. Doc. 854, 62nd Cong., June 27, 1912); Message of the President of the United States Submitting for the Consideration of the Congress a "Budget with supporting Memoranda and Reports", prepared by the Commission on Economy and Efficiency (S. Doc. 113, 62nd Cong., February 26, 1913): "National Budget System": Hearing Before the Select Committee on the Budget of the House of Representatives on the Establishment of a National Budget System, 66th Congress, 1st Session 1919; "National Budget System, Report from the Select Committee on the Budget (H. Rep. 362, 66th Cong., October 8, 1919)"; and "National Budget System." Changes in the Rules of the House. Report from the Select Committee on the Budget (H. Rep. 373, 66th Cong., October 11, 1919).

Documents of the second class are: The Budget, transmitted to Congress in pursuance to the provisions of the Budget and Accounting Act, 1921, beginning with that for the fiscal year ending June 30, 1923; the Annual reports of the Director of the Bureau of the Budget, 1921-date; and Addresses of the President of the United States and the Director of the Bureau of the Budget at the Annual and Semi-Annual Meetings of the Business Organization of the Government, the first of which was held June 29, 1921.

Of private works the most comprehensive are the two volumes by W. F. Willoughby, "The Problem of a National Budget", Institute for Government Research, Studies in Administration, 1918, and "The National Budget System: with Suggestions for Its Improvement", Institute for Government Research, Studies in Administration, 1927. Other works on the subject are: "The First Year of the Budget", by Charles G. Dawes, 1923, and "The Natural Budget System by Charles W. Collins (1917), the two volumes by Mr. Willoughby contain exceptionally complete bibliographies, and it is unnecessary, therefore, to repeat here the title there given.

**State Budget Systems.** The official literature showing the defects in the existing systems of the states and municipalities for the formulation and making provision for their financial needs and how these defects can only be remedied by the establishment of a properly devised budget system, is to be found chiefly in the reports of economy and efficiency commissions, a list of which has been given. Official information regarding the



character and operations of budget systems actually established consist of the budgets themselves, the instructions, forms, etc., made use of by the agencies charged with the formulation of the budget, the messages of governors and reports of departments of finance and other agencies in the states exercising powers of general administration or supervision and control.

The subject of budgetary reform in the states has been handled in a number of works by private authors issued during the past few years. The titles of these works are: "The Movement for Budgetary Reform in the States", by W. F. Willoughby, Institute for Government Research, Studies in Administration, 1918; "Budget Making in a Democracy: A New View of the Budget," by Edward A. Fitzpatrick, 1918; "The Budget and Responsible Government, by F. A. Cleveland and A. E. Buck, 1920; "Budget Making: A Handbook on the Forms and Procedure of Budget Making with Special Reference to States, by A. E. Buck", 1921; "Handbook in Administration", National Institute of Public Administration, 1921; "Financial Control in the States with Emphasis on Control by the Governor", by H. H. Barth, 1923, and "Budget in American Commonwealths", by E. E. Agger, 1907. Columbia University Studies in History, Economics and Public Law, Vol. 25: 117-334.

The works of Willoughby, Taylor, and Barth contain valuable bibliographies. In addition to the references there given mention may be made of the following: "The Development of the Budget Idea in the United States", by A. E. Buck, Annals of the American Academy of Political and Social Science, Vol. 113, May, 1924; "The Budget", by W. T. Donaldson, Assistant Budget Commissioner of Ohio (Bulletin No. 6, Indiana Bureau of Legislative Information, 1916); "State Budget System in the United States" (Bulletin No. 2., Commission to Compile Information and Data for the Use of the Constitutional Convention, Massachusetts Constitutional Convention, 1917); "The Recent Movement for State Budget Reform, 1911-1917", by F. W. Powell, Municipal Research, No. 91, November, 1917; "The Present Status of the Executive Budget in the State Governments", by A. E. Buck, National Municipal Review, Vol. 8, August, 1919; "Progress in State Budget Making, by A. E. Buck, National Municipal Review, Vol. 13, January, 1924; "State Budget Systems", by Leonard P. Fox, Pennsylvania Chamber of Commerce, 1922, which gives an excellent summary of action by the states in the way of adopting improved budgetary systems and a valuable appendix giving reference to state budget laws and amendments; and "The Municipal Budget", Publications No. 1, League of Minnesota Municipalities, 1925.

Other references regarding the budget system in individual states in addition to those given in Willoughby, "A Movement for Budgetary Reform in the States", are:

*California*

The Governor's First Budget

Transactions California Commonwealth Club, 1923

*Illinois*

The Development of the Budget in Illinois

By Omar H. Wright, Director of Finance

Proceedings of Academy of Political Science, Vol. 8, July, 1918

*Maryland*

The First State Executive Budget

By Governor Emerson C. Harrington

Proceedings of the Academy of Political Science, Vol. 8, July, 1918

*Massachusetts*

The Budget System as a Preventive Measure Against Public Extravagance

By Benjamin Loring Young, 1924

Reprinted from Proceedings of 17th National Tax Conference

Evolution of the Budget in Massachusetts

By Luthor H. Gulick

New York, 1920

*New Jersey*

The New Jersey Budget Law

By A. N. Pierson

Proceedings of the Academy of Political Science, Vol. 8, July, 1918

*Ohio*

Fiscal Control in Ohio

By R. E. Miles

Annals, Vol. 113, May, 1924

*Oklahoma*

The Final System of the State of Oklahoma

By F. F. Blachly

Studies in Government and Administration, University of Oklahoma Bulletin No. 3, 1921

The Executive Budget in the Light of Oklahoma's Experience

By F. F. Blachly

Southwestern Political and Social Science Quarterly, Vol. 2, June, 1921

Government of Oklahoma

By F. F. Blachly and M. E. Oatman

Oklahoma City, 1924

Some Problems of Oklahoma Finance

By F. F. Blachly and M. E. Oatman

Studies in Government and Administration, University of Oklahoma Bulletin No. 4, 1924

Fiscal Control in Oklahoma

By F. F. Blachly and M. E. Oatman

Annals, Vol. 113, May, 1924

*Pennsylvania*

Fiscal and Administrative Reorganization in Pennsylvania

By Clyde L. King

American Political Science Review (Legislative Notes and Reviews, Vol. 17: 597-608, November, 1923)

**Problems in State Finance and Administration**

Pennsylvania State Chamber of Commerce, Harrisburg, November 14, 1922

**Developing Budgetary Control in Relation to the State Institutions of Pennsylvania**

By C. H. Hunt

Annals, Vol. 113, May, 1924

*Virginia***Virginia War Economy and Budget System**

By Leroy Hodges

Proceedings of the Academy of Political Science, Vol. 8, July, 1918

**The First Virginia Budget**

By A. E. Buck

National Municipal Review, Vol. 9, April, 1920

**Distinctive Features of the Virginia Budget System**

By Governor E. Lee Trinkle

Governors' Conference, White Sulphur Springs, W. Va., 1922

*Wisconsin***Budget and Budget Making**

By Governor E. L. Philipps

National Conference of State Purchasing Agents of the United States, Madison, Wis.

**Budget Systems: Municipalities.** The literature on municipal budget systems is much less copious than that on state budget systems. The most valuable discussion of the problem is to be found in the two works by A. E. Buck, "Municipal Budgets and Budget Making," National Municipal League Monograph Series, 1925, and "Municipal Finance," 1926. Another work on the same subject, but much less valuable, is "Municipal Budget Making," by R. Emmett Taylor, University of Chicago Press, 1925.

Other reference are "A Comparative Study of the Administration of City Finances in the United States, with Special Reference to the Budget," by F. R. Clow, Publications of the American Economic Association, 3d Series, Vol. II, No. 4, November, 1901; and "Recent Progress in Municipal Budgets and Accounts," by C. G. Rightor, National Municipal Review, Vol. 5, July, 1916.

**Accounting and Reporting System of the National Government.** No comprehensive description of the accounting and reporting system of the national government has ever been published. Probably the most thorough study of this system that has been made is that made by the United States Congressional Joint Commission on Laws Organizing the Executive Departments, Organization, etc. (Dockery-Cockrell Commission), 1893-1895. The reports of this commission are of special value, as they give the results of a thorough study of the system of financial administration of the national government and were followed by the enactment of various laws providing for important changes in

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that system. Most of them were issued to accompany reports of House committees on bills providing for the effecting of the changes recommended. Practically all of them were also issued as Senate Documents. For an account of the work of this commission and a list of its reports, see G. A. Weber's "Organized Efforts for the Improvement of Methods of Administration in the United States," Institute for Government Research, Studies in Administration, 1919.

The United States Committee on Departmental Methods (Keep Commission) devoted a number of its reports to the subject of the accounting and reporting system of the government. These reports are: "Method of Rendering and Stating Account," 1906, "Cost Keeping in the Government Service," 1906; "Assembling of Disbursing Officers' Checks and Vouchers, etc.," 1907; and "Treasury Bookkeeping," 1907.

The President's Commission on Economy and Efficiency, 1910-1913, likewise devoted considerable attention to the accounting and reporting system of the government. Most of the results of its studies were embodied in the series of "Circulars" issued by it, which were not transmitted to Congress and were not, therefore, published as public documents. For a list of these circulars, see G. A. Weber's "Organized Efforts for the Improvement of Methods of Administration" above cited. The report entitled "Message of the President of the United States Transmitting Reports of the Commission on Economy and Efficiency" (H. Doc. 670, 62nd Cong., April 4, 1912) contains as Appendix No. 4, a report on "The Accounting Offices of the Treasury, with Recommendations for the Consolidation of the Six Auditors' Offices into One Office," which gives a brief history of the accounting system 1789 to 1894, comments on the work of the Dockery-Cockrell Commission above mentioned, and includes a copy of the law organizing the accounting offices of the Treasury in accordance with the recommendations of that body.

The Treasury Department has issued two pamphlets giving information on the accounting system of the government. These are: "Information Relating to the Accounting System of the United States Treasury Department. A Compendium of the Principal Statutes and Comptroller's Decisions Relating to the Accounting Offices of the Treasury, Their Duties and Jurisdiction, to the Manner of Rendering and Settling the Public Accounts and to the Custody of Public Moneys by Public Officers," compiled by Robert S. Person, Auditor of the Treasury for the Interior Department, Published by Division of Bookkeeping and Warrants of the Treasury Department, 1905 and "The Accounting System of the United States 1789 to 1910," prepared under

the Direction of the Chairman of the Committee on Auditing. Treasury Department, 1911.

Another source of information concerning the accounting and reporting system of the national government is the files of "The Government Accountant," organ of the Association of American Government Accountants, Washington, D. C., 1907-12. Contribution to this periodical, which unfortunately suspended publication, are of special value since they consist for the most part of articles by officers of the government intimately acquainted with the matters discussed, current comment on methods, changes etc. Among these articles, special mention may be made of: "The Disbursing Office, Its Operations and Records," by W. L. Soleau, Disbursing Officer of the Department of Commerce and Labor, Vol. 2, June, 1908. "The Routine of Making Deposits into and Obtaining Advances from the United States Treasury," by M. J. O'Reilly, Division of Bookkeeping and Warrants of the Treasury Department, Vol. 2, July, 1908; "Relations which Should Exist between Administrative and Accounting Officers," by R. S. Person, Vol. 1, May, 1907; and "The Accounting Officers: Their Proper Administration," by W. S. Andrews, Former Auditor of the Treasury Department, Vol. 1, May, 1907,

Information of value, from the historical standpoint at least, may also be obtained from "A Synopsis of the Commercial and Revenue System of the United States as Developed by Instructions and Decisions of the Treasury Department for the Administration of the Revenue Laws, Accompanied with a Supplement of Historical and Tabular Illustrations of the Origin, Organization and Practical Operations of the Treasury Department and Its Various Bureaus in Fulfilment of That System," by Robert Mayo, 2 volumes, Washington, D. C., 1847.

Finally, of course, information regarding the character of the financial statement and reports of the national government is to be obtained from the current reports having for their purpose to make known the financial condition and operations of the government. These consist of: "The Budget," transmitted annually to Congress by the President, the annual reports of the Secretary of the Treasury, including not only the report of the Secretary himself but also of other officers of the Treasury Department, such as the Treasurer, Registrar, etc.; the "Combined Statement of the Receipts and Disbursements, Balances, etc., during the Fiscal Year," issued annually by the Division of Bookkeeping and Warrants of the Treasury Department; the "Statement of the Public Debt," issued monthly by the Treasury Department; and the "Daily Statement of the United States Treasury," issued daily by the Treasury Department,

In respect to proposals for improving the accounting and reporting system of the national government, the best work is "Manual of Accounting and Reporting for the Operating Services of the National Government," by H. P. Seidemann, Institute for Government Research, Studies in Administration, 1926. This will shortly be supplemented by a companion volume, to be issued by the Institute for Government Research, entitled "Manual of Central Accounting and Reporting for the National Government." These two works will cover in a comprehensive way the whole problem of accounting and reporting of the national government.

**Accounting and Reporting System of the States and Municipalities.** The only work dealing in a comprehensive way with the whole problem of accounting and reporting of the states and municipalities is "Principles of Government Accounting and Reporting," by Francis Oakey, Institute for Government Research, Principles of Administration, 1920. This work sets forth the principles and practices in respect to accounting and reporting that should obtain and considers the actual forms of financial statements issued by the states and municipalities which have made the greatest progress in the direction of putting their accounting and reporting system upon a proper basis and points out wherein they are satisfactory or are subject to improvement. Another work dealing with the subject in a less thorough way is "Handbook of Municipal Accounting," Bureau of Municipal Research of New York City, 1913. The book "Chapters on Municipal Administration and Accounting," by F. A. Cleveland, New York, 1909, though not a treatise, contains many suggestions of value. The latest attempt to consider the character of financial data that should be published by state governments and the form of their presentation is a publication in mimeograph form by the Institute for Government Research of a "Draft Manual of Reporting Financial Data of the States," prepared by the Institute for Government Research in Cooperation with the Committee on Uniform State Accounting of the National Association of State Auditors, Comptrollers, and Treasurers, 1926. Much the best manual of an accounting system in use is the "Manual of Accounting and Reporting for the Treasurers' Officers of the City and County Governments of the Territory of Hawaii," Commission on Public Accountancy, 1927. A companion volume dealing with accounting of the Territorial Government of Hawaii is in preparation. Of accounting manuals prepared for particular cities, special mention may be made of "Manual of Accounting and Business Procedure of the City of New York," Department of Finance, City of New York, 1909; "Manual of Accounting, Reporting, and Business Procedure of the City and County of Philadelphia," issued by Philadelphia Department of City Comptroller in Conformity with Existing Laws

and Ordinances, 1917; and "Oulines of Uniform System of Accounts for Municipalities and Handbook for Municipal Officers," by Walter R. Darby, Commissioner of Municipal Accounts, Trenton, N. J., December, 1923.

For a valuable list of studies of the municipal accounting system of particular cities, see Sarah Greer "A Bibliography of Public Administration," published by the National Institute of Public Administration, New York. The files of the publication of the New York Bureau of Municipal Research "Municipal Research" 1915-1921, contain many contributions on the subject that can be consulted with profit.

**Uniform Accounting and Reporting in the States and Municipalities.** The Bureau of the Census has taken the leadership in the movement to promote the adpotion by the states and municipalities of a uniform system of accounting and reporting, and the best sources of information regarding that movement are the publications of that bureau. The problem is discussed in the annual "Statistics of States" and "Statistics of Cities." This Bureau has also held two conferences on the subject, the proceedings of which were published under the titles "Uniform Municipal Accounting." Minutes of a Conference Held in the City of Washington, November 19-20, under the Auspices of the United States Bureau of the Census, 1904, and "Uniform Municipal Accounting," Proceedings of a Second Conference Held in the City of Washington, February 13 and 14, 1906, under the Auspices of the United States Bureau of the Census, 1906.

For information regarding the standardization of accounting and reporting by the municipalities of a particular state, see the publications of state officers and services having the function of supervising the accounting operations of municipalities and other local bodies.

The two articles "Standardizing Governmental Accounts," by Le Grand Powers, Government Accountant, Vol. I, p. 254. September, 1907, and "Uniform Municipal Accounting and Reporting," by C. R. Woodruff, Government Accountant, Vol. I, p. 468, February, 1908, give valuable data regarding the movement for uniform accounting and the development of the system of state control over municipal and local accounting. The article "State Supervision of Municipal Accounts," by Wylie Kilpatrick, National Municipal Review, Vol. 12, May, 1923, is still more valuable as bringing this information down to date.

**Classification of Expenditures by Character and Object.** Primary information regarding the manner of classifying expenditures by character and object must be sought in the systems of classification that have been adopted by the states and municipalities as a feature of improving their budgetary and accounting pro-

cedures. An excellent consideration of the question, together with a criticism of existing systems of classification and a valuable bibliography of original sources of information is to be found in "Financial Control in the States, with Emphasis on Control by the Governor," by H. H. Barth, Philadelphia, 1923. The subject is also considered at length in "Principles of Government Accounting and Reporting," by Francis Oakey, Institute for Government Research, Principles of Administration, 1921.

The system of classification employed by the national government is set forth in "Classification of Objects of Expenditure for Departments and Establishments of the Government of the United States," United States General Accounting Office, Bulletin No. 1, May 11, 1922.

The titles of some of the more important pamphlets giving the schemes of classification actually employed are given below (for other references, see the work of Barth above cited); "Standard Code of Classification of Expenditures," City of Cleveland, Office of the Department of Finance, Division of Accounts, 1914, and 1915; "Objects of Expenditure Classification for the City and County of Philadelphia," City Controller, April 1, 1914; "Classification of Objects of Expenditure," City of Rochester, New York, City Comptroller, May, 1916; "Budget Classification and Rules of Procedure for the Offices of the Several State Departments for Filing Estimates of the Appropriations which These Departments May Require for the Fiscal Year 1917-1918," Legislative Reference Bureau, Illinois, 1916; "Directions for Preparing the 1918 Budget, Organization Units and Functional Divisions Expense Classification," City Comptroller, Milwaukee, July 15, 1917; "Budgetary Codes of the Sanitary District of Chicago," by J. L. Jacobs and company, August, 1917; "Sub-classification of Expenditures of the Departments under the Civil Administrative Code," prescribed by the Department of Finance, Illinois, July 1, 1919; "Classification of Expenditures, Biennium 1921-1923," Department of Finance, Nebraska; "Budget Classification for All State Departments, Bureaus, Divisions, Offices, Commissions and Agencies," Budget Commission, South Carolina.

**Classification of Expenditures by Functions or Activities.** In its reports "Statistics of Cities" and "Statistics of States," the Bureau of the Census gives tables showing the expenditures of these bodies by a classification approximating that of functions or activities. For the national government a very interesting statement of expenditures and functions was worked out for the first time and presented in The Budget, 1924, and continued in subsequent Budgets. This statement showed expenditures classified from this standpoint each year during the period 1915 to date.



**Custody of Public Funds.** A thorough consideration of the whole problem of the custody of state funds can be found in "The Custody of State Funds," by Martin L. Faust, National Institute of Public Administration, Studies in Public Administration, 1925. The subject is also excellently handled in the article "Interest on Public Deposits; a Phase of a Larger Problem," by Frederick P. Gruenberg, *Annals of the American Academy of Political and Social Science*, Vol. 113, May, 1924.

**Custody of Public Moneys of the National Government.** In addition to the references given under the heading of "Accounting and Reporting System of the National Government," the following deal specifically with the different systems that have obtained in the national government for the actual custody of public moneys;

"The History, Organization and Influence of the Independent Treasury of the United States," by David Kinley, New York, 1893; "Work Performed by the Sub-Treasuries," Report by the United States Bureau of Efficiency (H. Doc. 867, 65th Cong., January 26, 1918); "Methods of Keeping the Public Money of the United States," by J. B. Phillips, Publications of the Michigan Political Science Association, Vol. IV, No. 3, December, 1900; "Fiscal Functions of the Federal Reserve Bank," by J. M. Chapman, New York, 1923; and "Letter from the Secretary of the Treasury in Response to Senate Resolution of February 11, 1913"; "Change in the Method of Handling Government Receipts and Disbursements" (S. Doc. 1103, 62nd Cong., February 22, 1913).

**Audit of Public Accounts.** Notwithstanding its great importance as a fundamental feature of public financial administration, the audit of public accounts has received comparatively little attention either in the reports of economy and efficiency commissions or in private works. In respect to the national government, the important sources of information are; Darrell H. Smith, "The General Accounting Office," Institute for Government Research, Service Monograph No. 46, 1927; W. F. Willoughby, "The Legal Status and Functions of the General Accounting Office of the National Government," Institute for Government Research, Studies in Administration, 1927; W. E. Hotchkiss, "The Judicial Work of the Comptroller of the Treasury," Cornell University, 1911; Hearings of the Select Committee on the Budget, United States House of Representatives, 1919; Budget and Accounting Act, 1921; and annual reports of the Comptroller General of the United States, 1921-date.

Among periodical articles mention may be made of: E. L. Renick, "The Control of National Expenditures," *Political Science Quarterly*, Vol. 6, June, 1891; F. H. Thompson, "The Control of

National Expenditures," *Political Science Quarterly*, Vol. 7. September, 1892; C. W. Collins, "The Problem of an Independent National Audit," *Journal of Political Economy*, Vol. 28, January, 1920; O. R. McGuire, "Legislative or Executive Control over Accounting for Public Funds and the Accounting Officers of the United States and Judicial Precedents," *Illinois Law Review*, Vol. 19, March, 1925, and Vol. 20, January, 1926.

**Financial Administration of Great Britain.** Excellent material is available regarding the system of financial administration of Great Britain in reports of Parliamentary committees. The "Report of the Committee on the Receipt, Issue and Audit of Public Monies in the Exchequer, the Pay Office, and the Audit Department, 1856-1857," 2 volumes; "Report of Select Committees on National Expenditures of Parliament," 1902-03; "Reports of House of Commons Select Committee on Estimates," 1912-date and "Reports of House of Commons Select Committee on National Expenditure," 1917-date, are mines of information. The annual financial reports of estimates as submitted by the Chancellor of the Exchequer and the Chancellor of the Exchequer's budget speech give current information. As regards more technical features, the "Epitome of Reports from the House of Commons Committee on Public Accounts, 1857 to 1925 and of Treasury Minutes Thereon, with an Appendix," 1926, published in 1927 and the "Reports of the House of Commons Committee on Public Accounts" since that date are of great value.

Among privately published works the most important are: "The Principles and Practice of the System of Control over Parliamentary Grants," by Col. A. J. V. Durrell, Chief Paymaster, War Office, London, 1917; "The System of Financial Administration of Great Britain," by W. F. Willoughby, W. W. Willoughby, and S. M. Lindsay, Institute for Government Research, Studies in Administration, 1917, "The Financial System of the United Kingdom," by Henry Higgs, London, 1914; "The System of National Finance," by E. Hilton Young, London, 1915; "National Economy; An Outline of Public Administration," by Henry Higgs, 1917; "Financial Reform," by Henry Higgs, 1924; "Parliament and the Taxpayer," by E. H. Davenport, 1918; "The Finance of Government," by John Walter Hills and Dorothea Cotter Morison, 1925; "A Primer of National Finance," by Henry Higgs, 1919.

Other works on the subject are; "The National Budget: The National Debt, Taxes and Rates," by A. J. Wilson, London, 1882; "Official Finance in Government Departments," Edited by Herbert H. Bassett, London, 1913; "National Expenditure," by Harold Cox, London, 1905; "National Expenditure Accounts and Audit," by W. E. Snell, London, 1888; "The Exchequer and Control of

Expenditures," by R. G. Hawtrey, Oxford University, 1921; "English Public Finance from the Revolution of 1688, with Chapters on the Bank of England," by Harvey S. Fisk, New York, 1920; "National and Local Finance: Review of the Relations between the Central and Local Authorities in England, France, Belgium, and Prussia during the Nineteenth Century," London, 1910; "Report of the United States National Monetary Commission on the Fiscal System of the United States, England, France, and Germany," National Monetary Commission, Washington 1910; "History of the Bank of England and its Financial Service: to the State," by Eugen von Philippovich, National Monetary Commission, Washington, 1911.

An excellent description in brief compass of the reporting and audit system of Great Britain is given in: "Parliamentary and Commercial Accounts," by J. Hugget, Comptroller and Auditor General for Northern Ireland, London, 1923, and an equally excellent account of the internal organization and methods of operation of the British Treasury is to be found in the "Memorandum on the Control over Staff Exercised by the British Treasury," by Edward E. Bridges, which appears in the report on the Civil Service of Canada by special committee, 1923, to which reference has been made under the heading of "The Personal System of Canada."

**Police Administration.** On the special problem of police administration the four best works are: "European Police Systems," by Raymond B. Fosdick, New York, 1916; "American Police System," by Raymond B. Fosdick, New York, 1920; "Police Administration: A Critical Study of Police Organization in the United States and Abroad," by L. F. Fuld, New York, 1909; and "American Police Administration: Handbook on Police Organization and Methods of Administration in American Cities," by S. D. Graper, New York, 1921.

Other works dealing with the detail operation of police systems rather than the problem of administration but which throw light upon the latter are: "The Policeman," by C. F. Cahalane, New York, 1923, "Police Practices and Procedure," by C. F. Cahalane, New York, 1914; "Our Police Protectors," by] A. E. Costello. New York, 1885; "Policeman and the Public," by Arthur Woods, Princeton, 1919; "Guarding a Great City," by William McAdoo, New York, 1906; and "How to Become a Patrolman," by J. J. E. O'Reilly, New York, 1924. For current information regarding police matters, especially in New York City, the periodical "The Chief," New York City, may be consulted.

A recent work of great value dealing with the movement for the creation of a state constabulary, is: "The State Police,

Organization and Administration," by Bruce Smith, New York, 1925.

**School Administration.** There is a vast body of literature dealing with the problem of school administration. Much of this has to do with the actual management of schools rather than the administration proper of a school system, and thus falls without the scope of the present work. On the special problem of the organization and procedure of bodies having as their function the general administration of school systems, the primary sources are the annual reports or other publications of school boards, departments of education, and like bodies. The most important material, however, from the standpoint of the student of administration, is the large number of "School Surveys" that have been made under various auspices and especially those made by the General Education Board. This material is of special importance, since it gives a description of a large number of school systems and also criticizes these systems and indicates wherein it is believed that they can be improved. For a list of these surveys up to 1920, see "List of References on Educational Surveys," Library Leaflet No. 12, U. S. Bureau of Education, October, 1920.

Among works of private authorship, the following are of especial value as dealing with the problem of school administration from the broad standpoint: "Public School Administration: A Statement of the Fundamental Principles Underlying the Organization and Administration of Public Education," by E. P. Cubberley, New York, Rev. ed., 1922; "The Administration of Public Education in the United States," by S. T. Dutton and D. S. Snedden, New York, 1912; "School Reports and School Efficiency," by D. S. Snedden and W. H. Allen, New York, 1908; "Statistical Methods Applied to Education: a Text Book for Students of Education in the Quantative Study of School Problems," by H. O. Rugg, New York, 1917; "State and Country School Administration," by E. P. Cubberley and E. C. Elliot, New York, 1915; "A Recent Progress in City School Administration," by W. S. Defenbaugh, U. S. Bureau of Education, School Life, February, 1923, Vol. 8; and "Federal and State School Administration," by W. A. Cook, 1927.

A large amount of valuable information is, of course, contained in the publications of the Bureau of Education, Proceedings of the National Education Association, and the various journals devoted to school matters.

**Health Administration.** For references on public health administration, see "Health Books," American Public Health Association, New York, 1923.